

REAL SOCIALISM WOULDN'T WORK EITHER

KEVIN McFARLANE



CONTENTS:

I SOCIALISM DELUXE

The Pure Socialists

The Marxist Definition of Capitalism: All That's Bad With the World

II SOCIALISM'S INDICTMENT OF CAPITALISM

Essentials of the Socialist Critique of Capitalism

The Production-For-Profit Versus Production-For-Use "Dichotomy"

Planning Versus "Anarchy of Production"

Exploitation

The Moral Status of Exploitation

If Exploitation Is Wrong Then So Is Socialism

III DEMOCRACY AND SOCIALISM

Democracy and the Organisation of Production Under Socialism

Democratic Control

IV SOCIALISM AND ECONOMIC CALCULATION

Scarcity and Property

Economic Calculation

Can Central Planning Solve the Problem of Economic Calculation?

Stock Control Socialism

The Problem of Innovation and Entrepreneurship Under Socialism

Why Socialism Must Aim at Central Planning But Why It Cannot Succeed

V THE MORALITY OF THE MARKET

Exploitation in the Free Market is a Myth: The Moral Rightness of Profit

Inequality

VI CONCLUSION

NOTES

RECOMMENDED READING

Economic Notes No. 46

ISSN 0267-7164

ISBN 1 85637 107 7

An occasional publication of the Libertarian Alliance, 25 Chapter Chambers, Esterbrooke Street, London SW1P 4NN
www.libertarian.co.uk email: admin@libertarian.co.uk

© 1992: Libertarian Alliance; Kevin McFarlane. Kevin McFarlane is an engineer in the offshore oil industry.

The views expressed in this publication are those of its author, and not necessarily those of the Libertarian Alliance, its Committee, Advisory Council or subscribers.

Director: Dr Chris R. Tame

Editorial Director: Brian Micklethwait

Webmaster: Dr Sean Gabb

FOR LIFE, LIBERTY AND PROPERTY



REAL SOCIALISM WOULDN'T WORK EITHER

KEVIN McFARLANE

I SOCIALISM DELUXE

Does the collapse of Eastern Europe herald the end of the socialist dream? It probably has caused a reduction in the potential support in the West for the idealised vision of socialism which was the alleged goal of the East European countries, but which in practice they fell far short of. However, in the West, large-scale support for socialism has always been for the “democratic” variant, what the revolutionaries call “reformist” socialism at best and “sell-out” socialism at worst (i.e., not socialism). This reformist socialism is now being offered in a softer guise than hitherto, though it never really had the utopian vision of pristine Marxism.

In Britain we do not hear so much these days about nationalisation. There is a greater tolerance for the market from the Labour Party, if only because they've realised that they need it in order to generate the funds for their various public spending projects. The official Communist Party seems to be similar to Labour in this respect. And, indeed, much of the world seems to be converging on the idea that the market economy, in one form or another, is here to stay.

The Pure Socialists

Socialism Deluxe is really characterised by groups such as the Socialist Party of Great Britain (SPGB), the Socialist Workers' Party (SWP) and the Revolutionary Communist Party (RCP). None of these groups ever considered Eastern Europe to be socialist in the first place, and so remain unphased by recent events. On the other hand none of them can give us the slightest idea of what genuine socialism would consist of in practical terms. Their positive advocacy of socialism amounts to no more than a critique of capitalism together with one or two slogans scarcely more coherent than the first words of a small child. All three groups are mutually antagonistic. They are united only in their rejection of the market and a vague notion of replacing production for profit by production for use. (That is one of the slogans.)

Of course, it is far easier to criticise something than to project a constructive alternative and most of us are guilty of this vice at times. Free marketeers are often as negative as socialists when they dismiss certain iniquitous social outcomes as not being properly due to the free market. But there is a difference. Free marketeers can usually say what genuine instances of the free market consist of and moreover the free market, properly understood, is not a utopian system, so that it is not necessary that it should yield perfect results. In fact it is the very existence of imperfections which makes the market such an invaluable tool, a point which socialists fail to appreciate.

On the other hand, when Marxian socialists condemned Eastern Europe as not being genuinely socialist they failed to tell us what genuine socialism should consist of, beyond vague notions of planning and democratic workers' control. These vague notions will be scrutinised in some detail later in this essay where it will be shown that they are complete nonsense.

Unfortunately, for unreconstructed revolutionary Marxists, the average untutored person thinks that the collapse of Eastern Europe is equivalent to the refutation of Marxism since the Eastern European countries are commonly regarded as having been Marxist. In this respect Marxists are in a similar position to free marketeers who are constantly told that Western economies are free market economies, when it would be better to call them just market economies.

Diehard Marxists probably feel pleased at the collapse of Eastern Europe since the fact that these economically and morally bankrupt countries insisted on parading themselves as socialist continually served to discredit Marxism in the eyes of many in the West, especially those who might otherwise have been inclined to support it. Marxists can now get on with the business of elaborating their ideal version of socialism unfettered by the embarrassment of Eastern Europe. (Or at least that is what they should be doing if they were not spending all their time denouncing capitalism.)

Unsophisticated anti-socialists see the collapse of Eastern Europe as being the major reason for pronouncing Marxian socialism dead. But this leaves it open to Marxists like the SWP, SPGB and RCP to reply that Eastern Europe was not genuinely socialist. So the proper way for anti-socialists to grind socialism into the dust is to show how “real” socialism is also balderdash, as will be demonstrated later in this essay. This in itself partly explains why Eastern Europe was not genuinely socialist. It could never be. Socialism can never correspond to the vision. It can result only in destruction.

Now, in fact, one can admit that Eastern Europe left a great deal to be desired as far as the ideals of socialism were concerned. Dictatorship was not one of the ideals of socialism. Despite large-scale state ownership money was not abolished, although that was the intention during the so-called “war communism” period in the Soviet Union (only called “war communism” after the event). Private property was not completely abolished. In fact it could be argued that this, and the black markets, enabled a great number of people to survive who otherwise would not have done. In the Soviet Union a substantial proportion of the grain output was produced by the tiny fraction of legally-established private farms. The Soviets had to import grain from the West, despite Russia having been a net grain exporter at the turn of the century.

Both the SWP and the SPGB regard Eastern Europe as “state capitalist”, with the difference that the SPGB hold that Eastern Europe has always been state capitalist and that there has never been a socialist revolution anywhere, while the SWP hold that the Soviet Union did have a genuine socialist revolution in 1917 which, for various reasons, never had a chance to establish itself, after which the Soviet Union became state capitalist. The SWP have a soft spot for Lenin and Trotsky and regard Stalin as a perversion. The SPGB hold that Leninism and Stalinism are the same thing. The SPGB are closer to the truth on this. It might not be quite fair to equate Lenin with Stalin but it is true to say that Lenin, by constructing a state apparatus which was able to crush all political opposition to the Bolsheviks, prepared the way for a more brutal thug than himself, Stalin, to step in and run it more ruthlessly.

One observation we can make here is that if all these revolutionary Marxist groups insist that there are no genuine instances of socialism we can at least insist that there have been many *attempts* at establishing socialism, all of which have failed. This in itself might suggest that there is something about socialism which makes it incapable of being realised. I shall argue later on that it is indeed incapable of being realised.

This repeated failure is particularly significant for groups such as the SWP who are generally enthusiastic about various socialist-inspired freedom struggles around the world. But as soon as these movements succeed in acquiring power they earn, not praise, but condemnation for not being genuinely socialist.

Nevertheless, despite all this, there were aspects of the former East European regimes which one must regard as having something to do with socialism after all. The collectivisation of agriculture and the requisitioning of grain by the “community” must be one of the things which any genuine socialist regime would insist on. This was deeply resented at the time by the peasants in the Soviet Union.

That output from a resource-rich part of the country be transferred to economically poorer parts of the country must also be a part of genuine socialism. This too was and is deeply resented. Nicolae Ceausescu’s attempts to herd peasant villagers into communal living conditions seems to me to be admirably socialist, given that Marxists are always denouncing the bourgeois institution of the family with its private property.

Socialists may reply that the problem was that these things were done dictatorially. But whether they are done dictatorially or democratically makes no difference. For example, the Scottish nationalists repeatedly complain about the wealth of Scotland, such as North Sea oil, not being used to benefit Scotland. This decision is made by a democratic vote of the people of the United Kingdom. Yet the Scots are no less resentful on account of the decision being democratic. If a democratic vote of the United Kingdom decides that all the home-owners in London should have their property expropriated and that they should all be made to live in communes they are not likely to feel any different on account of this being decided democratically rather than dictatorially. Marxists might think that socialism will include both local democracy and countrywide or worldwide democracy. I will show later that local democracy cannot be compatible with socialism as the Marxists envisage it. It can only make sense in an economy which uses market prices.

Marxists create the impression that only the rich will suffer after a socialist revolution. But if world socialism becomes established it is quite clear that there must be a massive transfer of resources from the West to the Third World and this will cause an immediate and drastic fall in the standard of living of workers in the West. Marxists, socialists and other savages, such as environmentalists, continually condemn the developed world for raping the less developed world of resources. If that is the case this means that the high-paying jobs and plentiful consumer goods which workers in the developed world enjoy must be the result of impoverishing the Third World. For the jobs of Western workers and the consumer goods they buy are made possible, ultimately, by the capital accumulated by the multinationals. But the multinationals are able to accumulate the vast capital they do allegedly only by exploiting the Third World. So if socialism becomes established tomorrow we will *all* have to reduce our standards of living, not just a handful of rich capitalists. That socialists are unwilling to admit to this merely demonstrates the fraudulence and intellectual incompetence of socialism. Most people in the developed world do not accept declines in their living standards without a fuss. Workers always complain about even small falls in their living standards when their pay rises are not as high as they expect, and Marxists are always telling them they deserve even more than they demand.

The Marxist Definition of Capitalism: All that’s Bad With the World

Despite their differences, groups such as the SWP, RCP and SPGB are united in blaming all the world’s problems on capitalism. This makes them similar to Christianity, which blames all the world’s problems on human sin. Marxism is thus really a sort of secular religion, despite its pretences of rationality, and bears about as much relationship to reality as Christianity. Probably even less. It is intuitively more plausible to blame all the world’s problems on human sin than to blame them on capitalism, though both views are false in any case.

For Marxists, all things unpleasant are due to capitalism. Attempts at socialism which backfire are due to capitalism. And the surviving remnants of these attempts are just further instances of capitalism.

Thus the sort of approach we get to world events is an approach like that of Chris Harman in a very weak essay entitled “Revolt Against Capital” in *Socialist Worker Review* (January 1990).¹

Harman holds that the revolutions in Eastern Europe were revolts against “capital” but that the masses erroneously thought they were revolting against socialism.

If that were the case one would have thought that now would be the perfect opportunity for Messrs Harman et al. to enlighten the masses as to what genuine socialism consists of. Did Harman do so? No. Instead he gave us the usual Marxist account of how state capitalism was historically necessary to achieve the rapid capital accumulation required to industrialise what were economically backward countries. (This argument is also used by SPGBers.) Thus Chris Harman writes:

The weaker elements in a world system saw no way to protect themselves against the pressures of stronger rivals than to merge together into national blocs, protected from the outside and directed from within by the state.

The “weaker elements” *may* have seen no way to protect themselves but, actually, the best way for them to have protected themselves would have been to opt for private property and free trade, viz., West Germany vs. East Germany or Hong Kong vs. China. Again, from Harman:

[S]tate capitals can never quite be absolute masters of their own economies. For, despite the mythology of Stalinists and free marketeers alike, they have always had to cope with external economic competition.

But “state capitals” cannot master their own economies, competition or no competition. However, if anything, competition made them stronger, not weaker as Harman seems to suggest. For competition at least allowed them to copy the successful innovations of the West. Nevertheless, certainly in the case of the Soviet Union, socialism should have been able to go it alone. It was about the richest country in the world in terms of natural resources. It could have been self-sufficient. The SWP’s excuse for the failure of the Russian Revolution - that it did not spread internationally - cuts no ice for a country as resource-rich as the Soviet Union. However, had the revolution spread internationally it would have resulted in the stagnation of the whole of Europe instead of just the East. And had it spread worldwide the whole world would have regressed to the Stone Age.

Contrary to Marx, socialism is not more viable in the more industrially advanced countries. The greater the range of production possibilities that there are and the greater the range of consumer goods the more *impossible* socialism becomes. It is easier to plan an underdeveloped country than a highly developed one. Therefore if socialism cannot succeed in a relatively primitive country at a low stage of industrialisation this is really telling against socialism. The truth of this assertion will become more apparent as this essay proceeds.

One of the things about capitalism which Marxists continually complain about is the relentlessness of its drive for capital accumulation. Indeed Harman’s essay is obsessed with this. He thinks that the East European ruling classes imposed state capitalism in order to achieve rapid capital accumulation and that this required that all other social classes were prevented from organising. Even dissent within the ruling class was seen as a hindrance to capital accumulation.

But ruling classes are in the business of exercising *power*. They usually *hinder* accumulation through protectionism and other sorts of regulation of trade. (Marxists tend to define both capitalists and those who exercise political power as forming the ruling class because they hold that political power is exercised “on behalf of” capitalism and therefore in the interests of capitalists. This is hopelessly muddled, but a fuller discussion of this aspect of Marxism is beyond the scope of this essay. I use “ruling class” to mean those who directly exercise political power, i.e., the government and its assorted functionaries.) The East European ruling

classes prevented other classes from organising and stamped on dissent within their ranks because they wanted to hold on to power and privileges. And the reforms which are taking place now are themselves hampered by the fact that the ruling classes are still frightened of losing their privileges.

Marxists condemn capital accumulation, but this is absurd. The accumulation of capital means, ultimately, the accumulation of better, more efficient production methods and thus better and cheaper consumer goods. Viewed in this light we can evaluate Harman's claim that state capitalism enabled higher levels of accumulation than would otherwise have been the case. We cannot see much accumulation in the East. What we see are outdated, unhealthy factories and vastly inferior production tools, most of which break down frequently or do not function at all or which exist in the wrong locations. If the East Europeans really wanted to accumulate capital quickly in order to catch up with the West they should have opted for *laissez-faire* capitalism. But this would have been to forget the Marxist ideological baggage which underpinned these states. Though they could not completely dispense with private property and the market they nevertheless remained ideologically hostile to the market.

Harman's crusade against accumulation is nonsensical because socialism, no less than capitalism, would want to accumulate capital. It would want to continually improve and replace the existing stock of capital goods. The only difference is that it would want to do this "democratically". It would want it done by society as a whole rather than by competing groups of capitalists. This seems to suggest that any genuine form of socialism ought also to be called state capitalism even though it would have dispensed with money and trade. Of course, we can say that it is not the state but "society" which would accumulate capital, but in so far as accumulation takes place according to a plan, and not anarchically, those responsible for implementing the plan must prevent any contrary plans from being implemented. This requires forcing mechanisms which must be centrally coordinated, and hence it requires a state, whatever socialists may say. So it is quite useless for fools like Harman to rail against state capitalism.

Harman claims that state capitalism was increasingly restrained by national boundaries and points out that successful enterprises worldwide tend to be those which can call on multinational resources. He says:

The restructuring towards state capitalism of the late 1940s now has to be replaced by a restructuring away from it under the slogan of the 'market' and 'privatisation'.

However, what emerges, he says, is not a system of private capitalism but a system where capitals use nation-states to "mobilise resources on their behalf".

But capitals use nation-states to mobilise resources on their behalf because the nation-states happen to be there and they have no choice but to deal with them. Each state claims a monopoly of force within its own geographical area and the multinationals must obey the laws of the states in which they trade. It is true that the multinationals might be able to exert some influence over the policies of the client governments they find themselves operating under. They may be able to obtain favourable (or less harmful) terms of trade in certain instances. They may be able to hamper their economically poorer competitors with restrictions and regulations. This may at times make them more powerful than would be the case in a fully free market. This is certainly frequently so in the developed world. But this is because all countries are to varying degrees statist. It is because states intervene extensively in industry that large firms are able to use nation-states to "mobilise resources on their behalf".

Nevertheless, despite interventionism and protectionism the large multinational firms do sometimes have to struggle. General Motors has spent tens of billions of dollars on automation but still cannot compete with the Japanese in the US. Ford is struggling too. The big American car-makers are now clamouring for protection from Japanese competition. IBM, probably the most "monop-

olistic" multinational company in the world within its own industry is having a tough time. And this is all quite independent of the recession in the US.

However, speaking generally, though Harman does not mention it, nation-states are antagonistic to both the market and international socialism. Nationalism has always been a more significant concept than class and this is being revealed very clearly and very brutally in Eastern Europe at present.

Nation-states hamper the development of capitalism by policies of intervention and protection. No states believe in *laissez-faire* but one world state, even an interventionist one, would be more efficient from the point of view of "capital" than the hundreds of diverse interventionist states we have now. So why do we not have one?

Nationalism is a problem for socialism. Workers feel a greater affinity for national groups than they do for the world working-class. Perhaps Marxists think that these feelings will be overcome by the time the workers are ready to overthrow capitalism. Their historicist superstition makes them feel they can explain all social events by reference to some "necessary" purpose of capitalism. Nationalism, like racism, is presumably just another way in which "capital" keeps the workers divided.

Typical Marxist explanations run like this. Take some momentous events in the world, for example, the development of state capitalism in Eastern Europe and its subsequent collapse. The amazing analytical tools of Marxism provide us with the profound enlightenment that these events happened because capitalism needed it that way. Hence Harman's claptrap about the need for "restructuring" towards state capitalism and then "restructuring" towards the market. Far from Harman enlightening us on the collapse of Eastern Europe he succeeds in enlightening us only on the "mythology" of Marxism and the complete intellectual bankruptcy of the Socialist Workers' Party.

II SOCIALISM'S INDICTMENT OF CAPITALISM

Essentials of the Socialist Critique of Capitalism

From here on I shall take socialism to mean an ideology which advocates the abolition of the market and money and in which goods are distributed according to need or are freely selected from an abundant supply. So I will largely be discussing the Marxian vision of socialism, though there are non-Marxian socialists who share the same vision. The main difference between revolutionary Marxists and anarchists is not in their vision of the end-state but in how we get from here to there. This is also principally what divides the various revolutionary Marxists themselves.

The socialist critique of capitalism comprises several broad features. The major feature was mentioned above - the tendency to blame everything that's wrong with the world on capitalism. But we can also identify the following subsidiary features.

- (1) Socialists do not distinguish between different types of capitalism. They see capitalism as all part and parcel of the same thing. State capitalism is basically the same as interventionism, which is basically the same as fascism, which is basically the same as the free market. In other words, the differences between all these forms are really rather superficial from the point of view of the socialist utopia.
- (2) The problems of capitalism are held to be not significantly ameliorated by changing from one form to another, for example, from interventionism to the free market or *vice versa*.
- (3) Due to the above two points, and due to the fact that socialists do not properly consider the details of the future socialist society they fail to see that the problems of capitalism are either:
 - (i) Not due to the market but due to interventionism.
 - (ii) Problems which cannot be eliminated in any conceivable form of society based on advanced industry.

(iii) Not problems.

Points (1) and (2) are largely beyond the scope of this essay. But their rebuttal is more-or-less the entire purpose of organisations such as the Libertarian Alliance. Therefore, the rest of the LA literature can be consulted for this purpose. Point (3) (i) is also beyond the scope of this essay and, again, the LA literature can be consulted.

Points (3) (ii) and (3) (iii) comprise a large part of the subject matter of this essay.

But first let us look at some socialist complaints about *genuine* aspects of the market. I will not answer all of them in this section of the essay, but they will all be addressed eventually.

One of the main things which socialists dislike about the market is that it requires that in order for people to obtain the things they need they must be able to offer sufficient resources to somebody in exchange for those things. In other words people need adequate purchasing power to be able to obtain what they desire. But the purchasing power which people have is distributed very unequally. Some people can obtain what they want even though they may not “need” it, while others are denied what they need because they have insufficient purchasing power. Thus, although the free market operates according to supply and demand, the demand side of the equation means only “demand backed up by purchasing power” rather than the real demand which would be reflected if everybody had sufficient purchasing power.

Socialists also feel that the supply of goods is artificially restricted by the minority ownership of the means of production. Goods will not be supplied unless it is profitable for the owners to do so. Thus the profit motive artificially reduces supply, and at the same time depresses demand by the requirement to restrict the wages of workers to a level adequate to yield profits for the owners, who are also alleged to contribute nothing to the production process.

All of this is manifested through the system of market exchange. So socialists hold that the market should be abolished and replaced by a system of so-called “production for use”. Such a system is to be characterised by the abolition of money and the abolition of the production of goods for a market. This means that consumers will not have to offer anything in exchange for goods they want and workers will not exchange their labour for wages. Wages will no longer be necessary because everyone will have “free access according to self-determined needs”, to cite an SPGB slogan. I suspect that, despite their other differences, the SPGB, SWP and RCP are all in agreement about the end-state of socialism. But they may differ on how it should all be organised, to the extent that they have thought about this. And they differ on how we are supposed to get from here to there. The SWP are into activism, demos and strikes etc., whereas the RCP and SPGB are more into armchair propagandising.

Socialists advocate the collective ownership of the means of production. Under capitalism, ownership and control of the means of production is at any time confined to a minority of the population. A myth widely-trumpeted by socialists is that ownership benefits only the owners and thus minority ownership can benefit only a minority of the population. This accusation is false.

Presumably this charge is levelled largely at the managers of businesses, those responsible for employment and investment decisions rather than the owners *per se*. In the largest companies the managers are usually only part-owners. Most multinationals are public limited companies which are not actually owned by their boards of directors. The directors may have little or no shareholdings in the companies, but they are permitted to control the means of production on behalf of the nominal owners who receive dividends. The owners exercise control only indirectly. Their control comes from the fact that they can relinquish their shareholdings and ultimately pass control over to “corporate raiders” who may change the management. But I shall assume that “ownership” refers to the people who directly run industry under capitalism regardless of whether they are the actual owners or not.

Now it’s true that the owners are, on average, wealthier than the non-owners. But it’s not true that the non-owners are not benefited by the owners. Most things under capitalism are produced for consumption by the average person. It *might* be the case that in a system with common ownership of the means of production the former non-owners would be benefited *more* than they are now. But it is at least *possible* that in a system with minority ownership of means of production the non-owners are wealthier and freer than in a system where everybody owns the means of production.

The minority management of means of production under capitalism results in an ever-expanding supply of better and/or cheaper consumer goods for the general public. The greatest profits are made by catering to the tastes of the masses rather than to the tastes of the rich. Ford is economically more powerful and more profitable (usually) than Rolls-Royce. It is not obvious that abolishing the private ownership of the means of production would yield a still greater output of consumer goods. What lies behind the Marxist charge is presumably that, as *workers*, we are not benefited by the market. We may love the market as consumers but we hate it as workers. But again, it is not obvious that under public ownership of the means of production we could have more satisfying work or that we could have the equivalent of higher wages. After all, under capitalism, the bulk of profits must be ploughed back into the replenishment and improvement of the means of production and socialism would have to try to do the same. As noted earlier, this makes it nonsensical for socialists to complain about capitalism’s relentless drive for capital accumulation.

Of course, socialists feel that the owners contribute nothing to production and are not merely superfluous but, because of exploitation, actually make the majority less wealthy and less free than they otherwise would be. This claim of the socialists will be refuted later.

The Production-For-Profit Versus Production-For-Use “Dichotomy”

No matter which revolutionary Marxist group you come across one of the “universal constants” in their literature is the proposal to replace the system of production for profit with a system of production for use. The corollary to this is that according to Marxists, capitalism does not produce for use. This is false. Capitalism does not produce for use in the way that socialists want it to but it does nevertheless produce for use. It would be clearer for socialists to say that socialism means production for *direct* use while capitalism means production for *indirect* use, i.e. after exchange. When cornered about this they may admit that such is the case but they also want to insist that capitalism is wasteful and therefore that it does not produce for use. Yet production for profit is production for use since if it were not it would be production for *loss*. In order for capitalists to make profits they must in fact produce useful things - things which people want. It is true that not all the things which capitalism produces can be afforded by everybody but the things it does produce are nonetheless useful (or expected to be useful in order that capitalists can make profits).

Socialists often interchange “production for use” with “production for needs”, but the above criticism still applies. An object which is needed is obviously one which is useful. And if an object is useful to someone it is also “needed” in some sense, though it would be better to say that it is wanted rather than needed. The socialists then use this to say that capitalism produces many things which are not really “needed” after all. It produces artificial “wants” through advertising, etc. Therefore these artificial wants are not really useful. However, I would say that anything which anyone wants is in fact useful to that person, by definition. An object is useful if it satisfies some purpose which the user wants fulfilled. The reason that we think that some things are useless is that we do not happen to care for those things even though other people do.

One of the examples socialists frequently cite when claiming that capitalism does not produce for use is the production of weapons of mass destruction. There are three things we can say about this.

(1) Weapons production is merely a fraction of the production which takes place under capitalism. Most companies are not involved in weapons production.

(2) Weapons of mass destruction are purchased primarily by governments. People either vote for or have no choice but to tolerate governments which extort vast sums of the taxpayers' money for the purchase of weapons. If the taxation required for weapons expenditure were raised voluntarily, far less would be spent on weapons since the man in the street would generally have far better things to spend his money on if he were given the choice. In other words, laissez-faire states with minimal or zero governmental power would spend far less on weapons production.

(3) Weapons are in fact useful to the people who purchase weapons, by the definition of "useful" given earlier. They are certainly useful to Third World governments who are frequently embroiled in wars or civil wars. They are also useful to First World governments who also use them in occasional but less frequent wars. Even when they don't use them these governments consider them useful as a deterrent - as a means of insuring the continued existence of their states. It does not even matter if they are mistaken in this belief, for in that case the weapons are still useful for maintaining the "psychic" wellbeing of the establishment in these countries.

Planning Versus "Anarchy of Production"

Another of the major complaints by socialists about capitalism is that it is anarchic. It lacks overall coordination. It is not under anybody's "conscious" control. Socialism is expected to be a system in which society consciously plans for the needs of everyone. The original Marxian scheme envisaged the whole of society being regulated according to a single plan in the same way in which an individual enterprise within capitalism is regulated according to a plan. Marx contrasted the planning which takes place within enterprises in capitalism to the anarchy which governs society as a whole. This anarchy is due to individual enterprises making their own plans independently of everyone else.

Some socialists, to the extent that they think about this, envisage the socialist society as being centrally planned. Others envisage it being planned, but not *centrally* planned. Perhaps then they would prefer decentralised planning? But would this not merely introduce the dreaded "anarchy" again? Indeed, the market is just such a system of decentralised planning. In fact, given that socialists want to avoid anarchy in production, it is difficult to see how they can *aim* at anything other than a system of centralised planning. If the means of production are to be communally owned it is unthinkable to let individual enterprises do their own thing. Each enterprise will draw resources and labour which could be deployed elsewhere. So in order for socialists to avoid the anarchy of production which they detest so much, they would have to aim at central planning. Some central body will have to decide on the composition and quantity of resources to be made available to each enterprise.

However, because it is not possible to plan the whole of an economic system from the centre, something like decentralised planning will emerge as an unintended byproduct. But decentralised planning without the aid of a price system must yield economic chaos. This assertion is argued for below when I discuss the problem of economic calculation.

Now it is true that the market is anarchic, in the sense that it comprises a number of separate centres of planning. But it does not thereby lack coordination. For the price system coordinates the plans of each individual with the plans of all other individuals in the economic system. Each individual, in buying or selling, affects slightly the array of prices in the market and is in turn affected by that array of prices. In this way the market brings about the integrated planning of the entire economic system. So

although the market is anarchic it is not in fact unplanned. It is just that nobody possesses the overall plan. It is the consequence of the separate plans of individuals being harmonised through their interaction with the price system. This is the case in a free market. This coordination is messed up by government intervention, but despite this it doesn't work too badly on the whole in the developed world.

Exploitation

A major component of the Marxist critique of capitalism is the assertion, derived from the labour theory of value, that capitalism rests on the exploitation of the workers. Marxists hold that labour is the sole source of value. The value of a material good is derived from the labour embodied in its production. Managers and capitalists do no work and yet expropriate the produce of the real wealth creators, the labourers, as profits.

The labour theory of value is influential well beyond the ranks of *bona fide* Marxists. Many people seem to accept unconsciously the idea that the more work someone appears to do or the more skilful the work the more he or she should be paid. Thus they feel that, say, a page-three girl earning £300,000 per year is grossly overpaid in comparison to a nurse earning £8,000. And most people are affronted when they see that, say, their hourly services are charged out by their employer at £25/hr. while they are only paid £10/hr.

Marxism's claim that capitalists exploit the workers by extracting surplus value from them can thus be seen to be tuned into people's general moral sentiments, including the moral sentiments of the Marxists themselves. I shall argue that *if* this claim is true then the demand for the socialisation of the means of production must also be exploitative. Therefore, this makes nonsense of Marxists' indictment of capitalism on the grounds that it involves exploitation.² To be consistent with the goal of eliminating exploitation Marxists are logically obliged to advocate workers' capitalism. They can consistently advocate socialism *only* if they agree with exploitation.

In the last section of this essay I shall argue that the claim that capitalists exploit the workers is, in any case, false. This also implies the rejection of the underlying labour theory of value. Since the labour theory of value and the theory of exploitation constitute the heart of Marxism, Marxism is fundamentally untenable.

It is still possible to advocate socialism on other grounds but, psychologically, virtually all socialists are wedded to the exploitation thesis. Their rhetoric returns again and again to this point. So showing how capitalism does not exploit the workers considerably weakens the case for socialism. Later in this essay I will show that not only is the case for socialism weak but socialism is incapable of being realised. Thus there is in fact no case for socialism, regardless of whether those advocating socialism are Marxian socialists or non-Marxian socialists.

The Moral Status of Exploitation

Is there a direct link between the labour theory of value and the theory of exploitation on the one hand, and the abolition of market exchange on the other? There is not. In order to justify this statement I will first try to establish what is meant by exploitation. In particular, did Marx intend the concept to be used in a moral sense?³ One can certainly find statements in Marx which suggest that he did not regard exploitation as unjust. For example, consider the following:

The use-value of labour power ... belongs just as little to its seller as the use-value of oil belongs to ... the dealers who sold it. The owner of the money has paid the value of a day's labour power ... a day's labour belongs to him. On the one hand the daily sustenance of labour power costs only half a day's labour, while on the other hand the very same labour-power can remain effective, can work, during a whole day, and consequently the value which its use during one day creates is double what the capitalist pays for that use; this

circumstance is a piece of good luck for the buyer, but by no means an injustice towards the seller.⁴

and

The obscurantist foists on me the view that “surplus value”, which is produced by the workers alone, remains with the capitalist entrepreneurs in a *wrongful* manner. But I say ... that according to the *law of value* which rules that [capitalist mode of] production “surplus value” is due to the capitalist and not to the worker. In my presentation, the earnings on capital are not in fact “only a deduction or ‘robbery’ of the worker”. On the contrary, ... I show in detail that even in commodity exchange *only equivalents* are exchanged; the capitalist - as soon as he pays the worker the actual value of his labour-power - earns *surplus value* with full right, i.e., the right corresponding to this mode of production.⁵

But, elsewhere and overall, it seems clear that Marx holds capitalism to be immoral (one only has to look at the often colourful language he uses to describe the alleged unsatisfactory features of capitalism) and one of the reasons he holds it to be immoral is that it involves the exploitation of the workers. One can also find explicit statements to support this position. For Marx talks of the:

theft of alien labour-time on which the present wealth is based.⁶

and:

the learned dispute between the industrial capitalist and the wealthy landowning idler as to how the booty pumped out of the workers may most advantageously be divided for the purposes of accumulation.⁷

Regardless of Marx’s intentions concerning how we should regard exploitation we can make the following points:

- (1) If Marx did not intend the concept of exploitation to be used in a moral sense why did he use a term which almost everybody would and does interpret in a moral sense?
- (2) If it is true that capitalists extract surplus value from the workers then this implies that the capitalists are taking something which was produced by the workers. It is assumed that the workers are either unaware of this or that they consent to it only due to their being forced by circumstances to sell their labour power and, hence, that the capitalists are taking something which does not properly belong to them. This is theft. And most people hold that theft is morally wrong.
- (3) Whatever Marx may have intended, Marxists certainly interpret exploitation in a moral sense for, otherwise, it is difficult to see why it forms such a major part of their anti-capitalist rhetoric.
- (4) Exploitation only makes sense if it is used in a moral sense and in ordinary usage exploitation most certainly is a moral concept. It is used virtually every day in the news media, clearly in a moral sense. If exploitation is morally neutral the obvious response to its occurrence should be: so what? It’s obvious that we are expected to regard exploitation as unjust.

If Exploitation Is Wrong Then So Is Socialism

Thus, I am going to assume that the Marxian notion of exploitation means that the capitalists, in extracting surplus value from the workers, rob them and that this is unjust. If so, this means that not only should the workers manage their own production but they ought to pay themselves the entire sum of the profits made by each independently accountable productive unit. Of course, they could not take all the profits in remuneration since they would have to reinvest some of it in capital goods. This means their wages would be higher in the aggregate by an amount equal to the parasitic wage income of the former capitalists. But since not all productive units make the same profits, some productive units would be wealthier than others, as is the case today. So all that the theory of surplus value and exploitation suggests is that there should be a system of competing workers’ cooperatives. It does

not imply the abolition of private ownership of the means of production and market exchange. It would clearly involve further exploitation if a profitable productive unit were forced to subsidise a less profitable or unprofitable one because the workers in the former would not receive their full surplus value. The fact that we may feel it is fair for wealthier workers to be made to subsidise poorer ones does not alter the fact that it would be exploitation as far as Marxism is concerned (if Marxism were consistent).

At a debate last year I pointed out to a Marxist that workers’ cooperatives ought to follow from a consistent interpretation of Marxian exploitation theory. He seemed unable to grasp this, and responded that workers’ cooperatives exploit their workers, i.e., they exploit themselves. Presumably by this he meant only the woolier notion that they pay themselves low wages. But this is not the defining characteristic of exploitation in the Marxist sense. A peasant farmer could own a small plot of land, where all the produce goes to himself, yet be on a low income. But this is not exploitation. Exploitation refers to the allegedly nonproductive capitalists extracting surplus value from the wage-earners and is said to take place even if the workers are paid very high wages. The essence of exploitation is that the surplus goes to, or is controlled by, a group *other* than the workers themselves. It is absurd to say that, in a workers’ cooperative, where the workers control their surplus but do not use all of their surplus as wages, exploitation still takes place. Exploitation then becomes impossible to eliminate under *any* system, for it must always be the case that some of the surplus is used for investment in capital goods.

Marxists also condemn the system of production for profit but then they cannot *also* claim that the workers are exploited. For to argue that a worker-managed productive unit which makes a profit does so unjustly at the expense of the consumers departs from the Marxian notion of exploitation, which refers to the relationship between the capitalist and the worker. If it is unjust for a firm to make a profit, then *neither* the capitalists *nor* the workers are owed surplus value. In other words, if the workers were to receive the surplus value they would do so unjustly at the expense of the consumers. So, if this line of argument is maintained, the capitalist is exploiting *only* the consumers and *not* the workers. He cannot be exploiting *both* the consumers *and* the workers (assuming the absence of fraudulent exchanges). Aiming at zero profit would in practice mean that since no firm could know in advance how many commodities it would be able to sell, it would have to price its goods so as to make a profit and then those profits would somehow have to be handed back to the original purchasers of the goods as compensation. And no firm would have any money for the replenishment and improvement of its capital goods. But the wages of the workers would remain as they are under the present system. In other words, they would get no more under this form of workers’ self-management than now. We would be left with the same system of wage inequality as now, but with a steadily declining standard of living due to the gradual deterioration and destruction of capital, and with the end result being starvation and death.

Thus the implied alternatives to the alleged exploitation of capitalism are either a system of competing workers cooperatives with wage inequality but with workers’ wages theoretically higher than under capitalism (but probably lower), or a system of competing workers’ cooperatives with wage inequality and steadily declining wages followed by oblivion, this latter system departing from a consistent application of Marxian exploitation theory.

So, in order for Marxists to reject workers’ self-managed capitalism as an alternative to the present state of affairs, they cannot base their opposition to it on the grounds that it is exploitative of the workers for, in such a system, there is no exploitation of the workers in the Marxist sense. Instead they have to base their opposition to it on other unsatisfactory features of capitalism, such as trade cycles, inequality and poverty.

We might also add that the charge that the workers are exploited under capitalism - and are owed surplus value - implies that the workers are morally entitled to own whatever wealth they actually do own and, therefore, are entitled to private ownership of the

means of production within the productive unit which generates that wealth. It is inconsistent for Marxists to claim that the workers in a productive unit are entitled to own more than the equivalent of their wages but not entitled to private ownership of the means of production which produced those wages. The moral basis of the exploitation theory is that the labourer should be the rightful beneficiary of his actions, which is an individualistic premise at variance with the moral premise underlying collective ownership and socialism in general.

III DEMOCRACY AND SOCIALISM

Democracy and the Organisation of Production Under Socialism

Under socialism, if everyone works according to his ability but is rewarded in accordance with his needs, this is exploitation owing to the less able being "paid" more than they produce and the more able being "paid" less than they produce. In fact, unless such a system is set up with the voluntary approval of all concerned it is slavery.

Perhaps the reason why groups like the SPGB use slogans such as "free access according to self-determined needs" is to mask this fact. They thus avoid the impression of goods first being produced and then distributed, and gloss over the problem of how the goods are to be produced in the first place. There is the implied assertion that, though work is generally a chore under capitalism, nobody would object to working on whatever is socially necessary under socialism. It is assumed that socialism will produce so much abundance that the fact of the less able getting more than they produce and *vice versa* will become irrelevant, since everyone will be able to get what he wants.

But there seems to be no reason to expect work to be any less irksome under socialism than it is under capitalism. Given this, and given that everyone is entitled to take the consumer goods he wants regardless of whether - or how much - he works, it is difficult to see how very much work will be done, unless people are forced to work. Given that not much work will be done it is unlikely that there will be many goods in the "free access" stores, and so we would have to expect rationing and distribution rather than free access.

However, it could be argued that what makes work irksome under capitalism is the requirement for specialisation under the division of labour, which results in the monotony of routine. Under socialism it is imagined that there will be job rotation, that people will be able to work at a variety of tasks, and that this would make work more enjoyable. But this would necessarily be less productive than specialisation, owing to the decreased time and, hence, experience gained in each particular line of endeavour. Not everybody could become a doctor, for example, and it would be unproductive to have doctors also sweeping the streets.

We can tell that job rotation is not as productive as specialisation, because if it were it would have already arisen on the market since the market is always looking for ways to increase productivity. Thus in order to maximise production socialism would be forced to resort to job specialisation just as capitalism does. But this would make work no less irksome than under capitalism. So if people can get just as much from not working as from working they will choose the former. This means that society as a whole will gain very little. So, again, there will not be many goods in the free access stores. Again, we must expect rationing and distribution rather than free access.

It is worth discussing here the problem of selfishness and altruism. In general socialists tend to resist arguments against socialism based on the "selfishness" of human nature. They point out quite correctly that man is not exclusively selfish in his actions but demonstrates altruistic behaviour too. And they point to present and past groups of people in which apparently cooperative and altruistic behaviour predominates. However, the scope of man's

altruistic behaviour when it occurs is inevitably delimited, either spatially or temporally, e.g., it is limited to family and friends or consists of charitable donations to organisations for the purposes of alleviating temporary ailments, not for the purposes of helping people past the point when their ailments have been removed. For example, if a man saves a stranger from drowning he does not usually also offer to pay the stranger's mortgage and buy him a new car. Also altruism within small or large groups is usually accompanied by selfishness between groups. By "selfishness between groups" I merely mean the absence of the extension of altruism to non-group members, not necessarily the absence of civilised commercial exchanges. Even when people get actively involved in charitable work most of them devote only a fraction of their lives to such pursuits unless they are paid.

Socialists might claim that capitalism tends to encourage and reward selfishness and acquisitiveness and that socialism would tend to encourage their opposites. Thus socialists often maintain that human character traits are not fixed and can change with a change in social relations. This seems extremely doubtful and there seems to be no evidence for this assertion. The best that can be said is that human behaviour is sometimes selfish and sometimes altruistic.

If, then, it is acknowledged that most labour is irksome and cannot be made any less so, and it is noted that all labour is characterised by its disutility beyond a certain point, then we are faced with the problem that it is doubtful that most people will put in extra hours for the sake of others if they can expect to get just as much for themselves by being bone idle. People might be inclined to work extra hours in order to help those who are unable to work themselves. But not many would choose to work longer hours in order to support willingly unproductive parasites.

Nevertheless, even if I am wrong in my analysis of human nature we shall see below that socialism still remains untenable. Not even a community of angels can make socialism viable.

Another point concerning job rotation is that even were it economically viable it would still require some sort of labour discipline in order to ensure that supply was geared to demand. In other words, workers could not just simply do whatever took their fancy. Some management would be required. Workers would have to be subject to orders from management and this might be unpleasant. It is irrelevant whether the people doing the managing are democratically elected. Everyone prefers doing their own thing to being ordered about. We don't mind being *advised* but we all prefer to give orders rather than take them, if faced with these alternatives. So simply moving from capitalism to socialism will not alter the basic unpleasantness of being managed.

Another aspect of labour discipline is that there must be hierarchical relationships. Socialists hope to do away with this but this is just another example of their poverty of thought. Hierarchy is inevitable. So long as people cooperate under the division of labour for the production of goods there will be some people giving orders to others.

For example, the design and construction of an oil platform requires the cooperation of hundreds of people. If one considers merely the design, many different types of engineers are required. Not only must these different disciplines be harmoniously coordinated into the whole but even the work of engineers of the same type must be coordinated. Each engineer will tend to have his own ideas of how various tasks should be done. Many of these ideas have to be rejected. It is inevitable that a hierarchy of authority is required. Not only do engineers have different technical abilities, they also have different amounts of experience. This requires there to be variation in managerial responsibilities. It is ludicrous to think, however, that decisions can be made "democratically". Of course, decisions can be made after a certain amount of consultation and discussion but this is not the same as democracy. Not only would democratic decisions take forever, but they would also result in technical disaster. And they would still not satisfy those whose wishes were overridden.

There can be no system in which everyone's wishes are satisfied. Socialists often create the impression that there can be. Obviously those with greater technical ability and/or experience must have the greater say. For the moment we assume that there are no economic constraints. It is inevitable that there will be some people, not directly involved in technical activities, who will have jurisdiction over others who are. For there is the need to assign engineers to diverse tasks and to coordinate decisions with other groups so as to avoid incompatible solutions. It is inevitable that some of the technical workers will resent certain decisions. For they will feel that they are more in touch with what is going on. The managers will tend to be viewed as mere "paper shufflers". The extent to which resentment from the technicians is voiced is a function of managerial ability. The best managers are those who try to keep as closely informed as possible about the nature of the technical tasks involved and the skills and desires of the technicians. But even so, not everyone is going to get his wish.

If we add economic constraints to the foregoing picture the situation is even bleaker for the advocates of non-hierarchy. Consider, again, the design and construction of an oil platform. It is obvious that society can release only a fraction of the available factors of production for this purpose. If it used all factors of production nothing else could be done. And, in any case, everyone would starve. We may assume that the available quantity of factors is democratically allocated. So now the managers of the oil platform project must be concerned with cost, not just technical efficiency. (If money is abolished then some other way of measuring cost must be found.) So yet more hierarchy is required. Technical management must be subordinated to cost management in the sense that, given two or more technically adequate solutions, cost considerations must override technical ones. The technically-best solution may have to give way to the cheapest solution which meets all the requirements, unless this also happens to be the technically-best (and it almost always isn't). The managers of cost may not even be engineers themselves. At any rate, they are not usually involved in detailed engineering. Even if we assume that everybody gets the same pay or has free access to the consumer goods of their choice hierarchy is inevitable.

In practice, on engineering projects many of the engineers earn more than those who supervise them, particularly if they are employed on a contract basis. But this does not make them any less resentful of the managers. People always moan about management but, in the end, they just accept it as part of the package-deal of work. It's what they accept in return for what their labour can buy outside of the work environment.

If each person could create all his satisfactions by pure thought so that cooperation with others were unnecessary, only then could there be no hierarchy. For we would then be as gods, able to create and fashion matter at will without having to reckon with the scarcity of factors of production. In the meantime we live in the real world. So we have to conclude that a non-hierarchical society is mere wishful thinking. But wishes don't create reality.

Democratic Control

Socialists assume that once production comes under the democratic control of society as a whole this will automatically empower everyone in a manner which is absent under capitalism. This is complete claptrap.

There must necessarily be a clash between planning and democratic control if by "democratic control" is meant that each person is to have equal "power over their own lives", to cite a popular socialist aspiration. For a socialist society must still address itself to the problem of what to do with the factors of production in order to best satisfy the needs of the population (assuming it is able to register what all those needs are). Factors of production consist not only of raw materials, land, factories, machines and tools. They also include all types of labour and managerial skills.

Clearly, as far as production is concerned, there can be no question of just letting everyone do what he wants. That would just

result in economic chaos. So people must be assigned to various tasks in accordance with the overall plan. Now obviously this is going to result in frustration for virtually everybody for most of the time. It is quite irrelevant whether the plan is voted for democratically or imposed by a dictatorship. Those in the minority on any vote affecting them will not feel that they have much power over their own lives. A minority might also comprise one whole community who may have, say, a new school voted down because a wider democratic vote has decided that resources would be better deployed elsewhere. Note that, under socialism, any notion of local democracy concerning decisions such as these must be completely out of the question. For any decision made locally must draw resources from other parts of society and such decisions cannot, willy-nilly, be made if the dreaded anarchy of production is to be avoided.

However, under capitalism it is quite OK to have local planning because everybody's planning is coordinated through the price system. We are all free to bid and ask prices. But under socialism such activity is, by definition, absent. Local democracy can work under capitalism because resources can be given to local councils in the form of money and these councils can be free to exchange this money for the payment of factors of production or consumption goods, such as schools. All their actions are integrated with the rest of society through the price system. This remains true whether the councils are financed by the taxpayer or by the voluntary purchase of services.

But, of course, under socialism there is no money so the council has to be funded by direct transfers of means of production and labour. And that means the votes of the local residents have to be subordinated to the votes of society as a whole - and this means the whole world.

Consider, again, the question of democratic decisions within individual productive units. The last section has shown quite clearly that this is just nonsense. There must necessarily be a hierarchy of technical competence. But suppose, among a group of workers who are all *ex ante* equally suitable for a particular managerial task, a vote decides that Person A shall perform it. It's conceivable that democracy could work by, at least initially, rotating the task among these candidates so that all have a turn. But suppose one individual turns out to be the best. In order to maximise production this individual must be assigned the task indefinitely, at least as far as this particular group of workers is concerned. But his fellow competitors are not going to find this very fulfilling. Yet a socialist society must surely want the most able people to perform important jobs. It cannot just let Joe Bloggs try his hand at being a doctor if he is incompetent for the task. Yet Joe Bloggs may well feel competent for the task while society does not. Despite this, Joe Bloggs is expected to be happier under socialism because everything is decided democratically. It is amazing how stupid socialism looks when you devote a few minutes thought to it.

Now Joe Bloggs could be potentially capable of becoming a very good doctor and yet socialist society might *still* deny him the opportunity. Under capitalism society does not possess the coercive power to prevent Joe Bloggs from trying to improve his medical prowess by attending college. But under socialism society cannot just allow him to do this if it clashes with the overall plan. It might well be the case that Joe Bloggs would make a very good doctor with the right training. Yet society might still decide that he should not become one because his potential services as a computer programmer are more urgent or because the resources required to train Joe Bloggs have other more urgent uses.

This decision might be taken under capitalism too. But it is manifested through the price system. If his services as a computer programmer are more urgent than his services as a doctor then he is offered higher wages as a computer programmer than as a doctor. Or, if the resources required for his medical training are more urgently needed elsewhere he is charged higher fees. (If his education is paid for by the taxpayer then his decision to become a doctor will be regulated only by the lower wages on offer for

being a doctor.) Under such an arrangement only those who most want to become doctors will do so. Since only they will be prepared to accept the lower wages or the higher training costs, Joe Bloggs remains free to choose whether to be a doctor or not but capitalism imposes a cost on his choice.

Under socialism there is no money so society either has to appeal to his sense of altruistic duty or force him to be a programmer. So socialism faces a dilemma. In order to give people the power they are alleged to lack under capitalism it is necessary to enable them to be free to make choices. But for people to be free to make choices requires there to be anarchy of production.

It seems clear that far from people being more free under socialism they will in fact be less free. Socialists imagine that their utopia will be stateless but this is just a play on words. There must be some enforcement procedures for ensuring that people obey the dictates of the plan and ultimately this must mean police forces and law courts. Since, collectively, they will have a legal monopoly on the use of force they will constitute a state. Socialists may protest that “workers’ militia”, or whatever, would not be enforcing class rule and would be democratically elected. But that is completely irrelevant.

Another problem with having democratic decision-making extending to virtually everything is that it will take ages for people’s preferences to be registered and satisfied (or rejected). By the time the planners decide what to do most preferences will be out of date.

All these problems with democracy and organisation simply demonstrate that socialists have not thought enough (or not thought at all, in most cases) about what their society must entail. They are too busy criticising capitalism to work out what to put in its place.

IV SOCIALISM AND ECONOMIC CALCULATION

Scarcity and Property

Socialists create the impression that it is a relatively simple matter to arrange things so that people’s needs are satisfied. What they do is look at the vast quantity of consumer goods currently generated by capitalism (many of which they consider wasteful or unnecessary), observe that lots of people have more than they really need and then imagine that all that has to be done is to distribute an appropriate assortment of goods to the people who need them independently of their ability to offer anything in exchange for those goods.

Presumably by “needs” socialists mean something more than bare subsistence but less than everything people might possibly want. After all, things would really be rather difficult if everyone decided they wanted a Rolls-Royce, a yacht and a country villa. At the moment socialists regard such items as superfluous luxuries. Why? Well, they could claim that people do not really need Rolls-Royces when Ford Sierras will do. But the real reason is that only a minority of the population can afford such items. In order to pander to the fancies of the affluent few, resources have to be diverted from more important uses, as far as socialists are concerned, and this is so only because people do not all have equal purchasing power. But if production methods were to become so cheap that virtually everyone could afford Rolls-Royces the socialists would no longer regard them as superfluous luxuries.

Now under socialism it is envisaged that all will be equal in regard to their ability to procure the goods they want from the access stores. Assuming that Rolls-Royces remain as expensive as now it could be that most people would want a Rolls-Royce or its equivalents. Yet society might decide that this demand ought not to be fulfilled. Why? The reason is that resources are scarce and have alternative uses. It might be that the labour, materials and machinery required to provide everyone with a Rolls-Royce would mean that many more urgent wants remain unsatisfied.

Socialists are inclined to think that scarcity is merely an artificial creation of capitalism. They think it is the price system and the profit motive which make things scarce. If people lack adequate purchasing power things which could be produced will not be produced because it will be unprofitable to produce them. However, it is necessarily the case that goods are scarce in a technical, economic sense even though from a commonsense point of view it may not always look that way. For example, in Britain at the moment, potatoes do not seem to be scarce.

But in a technical, economic sense a good is scarce if its use for one purpose excludes or restricts its use for another purpose.⁸ All raw materials are scarce in this sense no matter how large the quantities in which they may exist. For example, the use of a part of the currently available supply of aluminium for one purpose reduces the supply available for other purposes.

A prototype of a good that is not scarce is air, which we say is a “free good”. My use of air does not, under most conditions, restrict the supply of air available for you. Moreover, it is not necessary to take action to consume air since breathing is automatic.

Is it possible to imagine a state of affairs in which there is no scarcity? The answer is “no” so long as human action exists.

To see why, imagine being in a state of paradise where there is superabundance of all goods necessary to fulfil human desires. For example, a superabundance of apples means that my consumption of apples does not reduce my possible future consumption of apples, nor the present or future supply of apples for any other person. In paradise we may also suppose that to obtain an apple, or any other good, involves nothing more than clicking one’s fingers. Despite this, it still remains true that one’s own body is a scarce good in that its use for the procurement of one or a few satisfactions at one time excludes its use for the procurement of other satisfactions at that time. For example, I cannot simultaneously eat an apple, smoke a cigarette, have a drink, read a book, drive a car, make love, etc.

The scarcity of man’s body is intimately tied to the concept of human action. It is the fact that man experiences states of dissatisfaction, that he can possibly alleviate, which causes him to act. But the fact that he cannot experience all satisfactions at once makes his body a scarce resource. This implies that it is necessary for him to choose between possible satisfactions, that is, to act. When acting, he arranges matters so that, at the moment of acting, a more valued satisfaction is chosen above a less valued satisfaction. This is equivalent to saying that something less valuable must be given up to attain something more valuable. Thus action or choosing necessarily implies the occurrence of costs, of foregone alternatives. It means foregoing possible enjoyments because the means needed to attain them are scarce and are bound up in some alternative use which promises returns valued more highly than the opportunities forfeited.

In paradise, where other people exist besides oneself, possible conflicts may arise over the different uses to which one’s scarce body can be put. For example, someone may want to go to the theatre with me at the same time that I want to play a game of football.

One way to resolve conflicts of interest over the use of one’s body is to assign property rights to the person who inhabits the body. In other words, we allow the inhabitant of the body to decide what uses it is put to and other persons must obtain permission from the owner if they want to use it for some purpose or other. This is equivalent to assigning private property rights in human bodies.

But it is possible to define property much more generally than this. Property is a concept designed to make conflict-free interactions possible by specifying mutually binding rules of conduct regarding scarce resources. This definition is rich enough to enable “property” to be meaningful even in a socialist society where private property in the means of production is outlawed. Indeed, property is not only meaningful in a socialist society, it is actually

essential. For, in such a society, nobody is allowed to merely appropriate means of production and do his own thing. Permission for use of the means of production by one person or group for some purpose must be obtained indirectly or directly through a society-wide democratic vote. So it would still be the case that rules regarding the use of scarce resources are specified in order to make conflict-free interactions possible.

Outlawing private ownership does not necessarily imply outlawing ownership all together. This can be seen by considering the example of forests. Private ownership of a forest means that some individual(s) has the sole right to dispose of its products and to set the terms for business transactions within its boundaries. Socialism would certainly outlaw this.

But suppose the forest were unowned. This implies that any and all-comers would be free to cut down trees and dispose of the products from any part of the forest they happened to reside in but they would not actually have powers of ownership. They would not be able, legally, to exclude rivals. They would either have to rely on goodwill to avoid rivals muscling in on their territory or would have to resort to physical force. Thus lack of ownership means conflicts of interest over the use of scarce resources. Clearly socialism would outlaw this too.

What socialism would establish is public ownership whereby elected representatives would formulate rules for the use of areas of the forest. So different "enterprises" would have to "bid" for the use of tracts of forest. This is similar to what happens now under capitalism when oil companies are offered leases for offshore oil production from publicly-owned areas of ocean. The main difference is that under socialism the various enterprises would not be seeking profits for themselves, but a net return to society as a whole.

To return to the problem of how to decide to what uses a scarce human body is put, we might decide that bodies should be publicly-owned. The collective would decide to what uses bodies are put. This could not be a completely general solution. In practice, even socialism would have to allow some degree of autonomy for human bodies simply because it could not possibly control everybody's every waking moment. (Socialists think that it is only market exchanges that they would outlaw and that, as regards civil liberties and personal lifestyles, we will all be freer than we are now. As I suggested above this is not likely.) We might also note that all societies incorporate a degree of the "public ownership of bodies" solution. We are not legally free to engage in all mutually consenting interactions. For example, we are forbidden to consume certain kinds of drug and (in Britain at least) to take part in mutually consenting sado-masochistic relationships.

What emerges here is that property, private or public, is the only non-chaotic solution to the problem of scarce resources. Note that the assignment of property rights is superfluous where there is no scarcity. If there were a superabundance of apples, then the assignment of property rights in apples would be nonsensical, for no clash between persons could possibly arise. But remember that superabundance in apples properly means that no other resources are required to procure apples. Above, I suggested that in paradise we could imagine clicking our fingers to obtain apples. We must also assume that everyone possesses fingers to click! And that the energy required to click fingers is infinite and instantaneously available. But if apples were superabundant *and* it were necessary to expend effort to procure them then the assignment of property rights in apples *would* be meaningful. For then, instead of walking half a mile to pick apples, I could save energy by stealing apples from you - if you happen to have some in your house, which is next door to mine.

In the real world, in order that consumption goods can be accessed by consumers, factors of production must first be combined in some manner. Factors of production include land, raw materials, capital goods and labour. All of these are scarce which means that conflicts over their use may possibly arise. The developed world solves this problem mainly by private ownership and exchange of

factors of production, subject to a greater or lesser degree of state intervention. Socialism wants to solve this problem by worldwide public ownership and production for direct use rather than for exchange.

If all factors were superabundant, like air, the question of private or public ownership would be meaningless. No type of ownership would be required, and the issue of capitalism versus socialism would simply be irrelevant. Thus the concept of socialism is meaningful *only* because goods are scarce so that conflicts over their use are possible. Yet, as we shall see below, it is just this fact of scarcity which makes socialism unrealisable.

Economic Calculation

Suppose that in a socialist society, at the start of a given period of production, the planners are in possession of a well-defined set of consumer needs which they must attempt to satisfy. There will be various combinations of factors of production which can be used to produce the various consumer goods. The planners must make decisions about the locations, types, quantities and qualities of factor inputs and must choose between different possible methods of production. The production of a single type of consumer good may require factor inputs from all over the world and the produced consumer goods may need to be transported to thousands of places all over the world. Each type of factor could be used to produce a number of different goods besides the one in question. But factors are scarce. If too many factors are assigned to the production of one type of consumer good then not enough factors will be left over for the production of other desired goods. This means that a socialist society, no less than a capitalist one, would have to be concerned with economising in the use of factors of production.

Consider a hypothetical example. Suppose some production process could be carried out equally well, from a technical point of view, by either of two methods. Method A uses 100 tons of steel. Method B uses 80 tons of steel. Both a privately-owned capitalist enterprise and a society-owned socialist enterprise would prefer Method B. This would be so as to maximise the amount of resources left over for the satisfaction of other wants which require steel for their production. But while capitalism can ration consumer wants by raising prices socialism aims to satisfy consumer wants independently of people having to offer prices. Therefore, one could say that socialism would need to be more concerned than capitalism with economising in production.

Socialism, no less than capitalism, must be concerned with profitable production. "Profitable production" means that the value attached to the good being produced exceeds the value attached to the possible goods which could be produced if resources were not tied up in the current good. Under capitalism there are thousands of independent centres of production where profit calculations are performed in terms of money. Because socialism is to be characterised by the absence of private ownership and money it may seem that it would not need to be concerned with profitable production. But this is an illusion. Socialism would still need, in the absence of money, some means of determining whether the value of goods produced exceeds the value of goods foregone. In other words it would still need to be interested in profitable production. Even if profit, in some sense, would be profit for society as a whole.

A frequent socialist objection to the capitalist system of production for profit is that it puts "profits before people". Thus businesses are alleged to cut back on things like safety in production in the interests of earning higher profits or of stemming losses. However, even in a socialist system, if we assume that it would allocate a higher proportion of resources to safety in production, it would still remain true that once a given level of safety is achieved production must aim at profitability. Thus in our hypothetical example we can assume that Method B is chosen subject to both methods resulting in the same degree of safety for the workers. (Note that the best that socialism can say regarding safety in production is that socialism will spend more on it than

capitalism now does. Socialism cannot guarantee safe production. Socialists often create the impression that it can. This is yet another consequence of their habit of blaming everything that's bad on capitalism.)

In our hypothetical example, what would be the consequences of socialism preferring Method B to Method A? Method B, which uses less steel, might require fewer workers, either directly or indirectly, than Method A. Suppose Method B had arisen as the result of a technological breakthrough, where previously Method A had been used. This would require that some workers would have to be redirected from tasks which they might want to continue working on to others which they might not want to work on. From the point of view of satisfying consumer wants a socialist society could not cater for all such desires of the workers in their capacities as workers. In other words, there is a clash between people's wants as consumers and people's desires as workers. This clash is manifested all the time under capitalism through the expansion and contraction of industries.

I might want to work as an offshore engineer all my life. But if the offshore industry were to contract drastically, to the point that it only needs to employ a fraction of the present staff, this would be because the consumers no longer demand the current size of the industry. This might happen if the remaining oil becomes too costly to extract in relation to oil obtainable elsewhere, so that the products of offshore oil cost too much in relation to other wanted products. This means that too many alternative wants would have to be foregone in order to maintain the current size of the oil industry. Another way of looking at this is that the consumers would be willing to bid more for the products of other factors of production than they would for the products of the factors of production employed in the offshore oil industry. If I enjoy being an offshore engineer, and now find that I cannot be employed in this capacity, this may be unpleasant for me. Socialists cite this as an example of the anarchy of production under capitalism. Yet it is obvious that socialism, if it wants to satisfy people's desires as consumers, cannot allow people to continue working on tasks for which there is no demand.

Socialism, no less than capitalism, would have to close down uneconomic coal pits and redirect production to cheaper sources. Socialism might decide, here and there, that it would allow some uneconomic pits to continue producing coal but it could not permit this for all sorts of uneconomic production everywhere in the world. Just as, under capitalism, the state may decide to subsidise coal production uneconomically but cannot do this for all the production in the economy without the standard of living plunging to zero.

Having established that socialism must be concerned with economic production, so far, it looks like there is no great problem for it in determining this. But let us complicate matters a little. Again, we consider two production processes. But now suppose that Method A requires 70 tons of steel and 60 tons of concrete while Method B requires 60 tons of steel and 70 tons of concrete. Which method should be preferred? One of the methods will be more economic than the other but in order to establish which we need to compare heterogeneous quantities.

So far we have assumed that socialism knows what the consumers want in the form of unfinished consumer goods and we have just been concerned with establishing economic production processes. However, it will not in fact be easy for socialism to know what the consumers want. This is because the consumers will not be able to have everything they want without paying some sort of cost. For example, if all the consumers decide that they want Rolls-Royces this might mean that too few ambulances are produced because too much of the labour required to produce ambulances is tied up in the production of Rolls-Royces.

What this amounts to is that not only must we make choices between different ways of achieving the things we want, we must also establish whether we can have the things we want in the first place. For it could be that some of the things we want can only

be provided at the expense of other things we want even more. Everything we do requires a personal review of how we value the things we have and how we assess the possibilities of achieving new values. When choosing between what consumer goods we want we need to be able to make comparisons between what we gain and lose from each selection. In a production setting, having decided on what consumer goods to produce, we need to decide what process to select, where each process uses different combinations of resources which can be used to produce other desired goods.

The process of comparing what we gain and lose by each choice of consumer good or production process is known as *economic calculation*.

In any system of large-scale social cooperation we have to face the fact that human values are divergent. People disagree over what things they want and how strongly they want them. Though there may be widespread agreement over some consumer goods, for example, the need for electricity, there can be considerable disagreement over the method for producing it. Should it be produced by coal, gas, nuclear power, hydro-electric power, etc.? Environmentalists, for example, might prefer gas to all the others but would be even happier if wind power were chosen. Each of these choices requires the use of land, time, labour, raw materials and capital goods which can be used elsewhere to produce other desired goods. Because people do not all share the same scale of values we need to be able, somehow, to take into account that people have divergent assessments of the gains and losses from diverse production processes and finished consumer goods.

One way of determining the relative strengths of divergent values is to look at the proportions in which people are prepared to exchange different things where "things" comprise both consumer goods and factors of production. By making use of a means of exchange, money, it is possible to reduce heterogeneous values to common units which can be added and subtracted. Then economic calculation can be performed in terms of money. Money prices automatically take account of the valuations or preferences of all those engaged in the process of trade. It then becomes possible to ascertain the costs of factors of production and production processes and to organise production economically.

But in order for people to exchange things using the intermediary of money they must possess private ownership of those things. Hence calculation in terms of money is possible only in a market economy. We now assert that no other means of calculation exists but money prices in a market. Therefore, socialism cannot calculate. Therefore it will not be able to determine and compare costs. This implies that resources will be misallocated, production will not be geared to meet demand and the misallocation will cause the collapse of industry. The end result must be starvation and death.

Can Central Planning Solve the Problem of Economic Calculation?

The original Marxian scheme envisaged worldwide production taking place according to a single coordinated plan. In other words, to avoid anarchy in production, there would have to be a single decision centre. Obviously, the people charged with issuing the planning orders would have to be a group or committee not comprising the entire population. This would be so even though these people might be democratically elected by the populace and periodically removed when judged not to be performing adequately.

Thus central planning was to be a necessary feature of socialism according to Marx's original ideas. But for most modern socialists it is not clear precisely how they envisage the nature of planning, since they spend virtually all their time denouncing capitalism.

However, this is what Leon Trotsky had to say about central planning in 1933:

If there existed the universal mind, that projected itself into the scientific fancy of Laplace; a mind that would register

simultaneously all the processes of nature and of society, that could measure the dynamics of their motion, that could forecast the results of their inter-reactions, such a mind, of course, could a priori draw up a faultless and an exhaustive economic plan, beginning with a number of hectares of wheat and down to the last button for a vest. In truth, the bureaucracy often conceives that just such a mind is at its disposal; that is why it so easily frees itself from the control of the market and of Soviet democracy.

The innumerable living participants of economy, State as well as private, collective as well as individual, must give notice of their needs and of their relative strength not only through the statistical determinations of plan commissions but by the direct pressure of supply and demand. The plan is checked and to a considerable measure, realized through the market. The regulation of the market itself must depend upon the tendencies that are brought out through its medium. The blueprints produced by the offices must demonstrate their economic expediency through commercial calculation.

Economic accounting is unthinkable without market relations.⁹

This is very embarrassing for Trotskyist groups such as the SWP. It could be that Trotsky had in mind only a temporary expedient for providing relief from the Stalinist wreck which the Soviet Union had degenerated into. But it seems that what he says here must apply to any form of planning which hopes to dispense with the market, and not just to the undemocratic and bureaucratic Stalinist version. It is difficult to see how any hypothetical non-market form of planning which Trotsky may have desired elsewhere in his writings could be exempt from the criticism he invokes here. If he did have some alternative, democratic and non-bureaucratic form of planning which avoided the need for the market it is difficult to see why he did not offer this vision in place of the words in the quoted passage.

At least a few members of the SPGB do reject explicitly the idea of central planning and are prepared to admit that it would not be feasible. Instead they envisage a system of decentralised stock control. This is supposed to simulate the automatic coordinating mechanism of the market while avoiding the need for market exchanges. However, I shall argue that there is no way that a socialist society can avoid *trying* to centrally plan the economy. But first I will examine this notion of stock control in more detail.

Stock Control Socialism

Suppose a socialist society has decided (somehow) on an assortment of foodstuffs which they think will exceed, in the aggregate, the amount that people want. They could not know precisely what people want in terms of their individual tastes. But we could imagine the producers churning out combinations of foodstuffs sufficient to cover the average person's daily diet. Then, by what people choose from the access stores, the producers can see what was desired and what was not. However, any shortfall in particular foodstuffs immediately complicates the issue for then the quantity selected of alternative foodstuffs might not indicate the real demand for those alternative foodstuffs. For people may have chosen six carrots, instead of two carrots and two potatoes, because the supply of potatoes had run out. But how are the producers to know that the six carrots selected represent genuine demand for carrots rather than a partially artificially-induced demand for carrots due to the shortage of potatoes? And therefore how can they be sure that the quantities consumed of potatoes and carrots provide adequate indicators of how to readjust the production of each item? Note that the producers, in providing a consumer with six carrots instead of his desired two carrots and two potatoes, are being less productive from the point of view of that consumer's satisfaction, even though they may have laboured more to produce the former than the latter. No doubt, the consumer could trade his excess carrots for someone else's excess potatoes. But to permit this, in a pristine socialist society, would be to journey on the slippery slope back to the market.

Perhaps we could imagine people being asked precisely what combination of foodstuffs they want for, say, a week's duration and then being asked to stick to that so that the producers would churn out precisely the same quantities of foodstuffs each week. But the variation in quality of particular types of foodstuff would have to be disregarded for such an exercise otherwise the authorities would be bewildered by the diversity of people's desires.

Despite this one could conceivably imagine that if people's desires did not change from day to day the planners could *eventually* satisfy them by trial and error although from what we have just argued it looks like this would take a *very* long time. However, the planners certainly could not accommodate *changes* in people's desires. And this, of course, is what we have in reality. The producers would simply have to say to the consumers: "this supply is what you are going to get for the week and if you change your minds for any reason, too bad." Now imagine this exercise being repeated for all consumer products.

The Problem of Innovation and Entrepreneurship Under Socialism

The major problems which stock control cannot solve are the problems of changes in consumer wants and changes in production possibilities. Socialism must reckon on the latter even if there are no changes in the former. Stock control says nothing about how to decide on what new goods to produce, that is, the problem of innovation and technological progress. The consumers must surely, in time, demand improved and new goods. If it is alleged that what capitalism has produced so far by way of the best consumer goods would, if made available to everyone in the world, be sufficient to stop people wanting more we can say immediately that this is false. For there is still the problem that not all our needs can be met.

For example, we all suffer from illnesses so the new society would at least have to try and produce new and improved health care and health-care products. Aside from this, it is obvious that people do want more and better goods. Essentially this means that they continually seek to replace their existing stock of goods with better ones. This implies that the socialist community is obliged to experiment in trying to see what new and improved goods will be desired. For existing goods, we might think that market surveys can solve some of the problem. We ask what the consumer finds unsatisfactory with a particular good. And then the producers can try something different and see if it meets with the consumer's approval.

But it is obvious that there will be some ways of improving the product, as far as the consumer is concerned, which the consumer himself is unaware of. In other words, there has to be some scope allowed for using means of production for the purpose of innovation. Millions of people would love to have the chance to experiment if they could. But given that under capitalism we can expect most new products to fail, otherwise everyone would become an entrepreneur and loans would be dished out willy-nilly, the socialist community must arrive at some method for weeding out proposals which are unsatisfactory and thus entrusting means of production only to selected individuals. It cannot be done by democratic vote. The public is not in a position *ex ante* to determine which out of a multitude of plans and proposed combinations of means of production are likely to succeed. Moreover the mass of the populace are notoriously hostile to change when that change is disruptive of accustomed patterns of work. Innovation tends to cause changes in working practices and a reshuffling of the sizes of different industries.

To the extent that socialism wishes to encourage entrepreneurship it must overcome two major problems. Under capitalism the entrepreneur is motivated primarily by one of two factors or both. (1) The desire to make a lot of money. (2) The freedom to do his own thing. (1) is certainly not an option open to the entrepreneur under socialism. But since money is to be replaced by goods in kind the question is really whether the entrepreneur is to be permitted to have greater goods in kind than his fellow man. If, as

socialists claim, socialism will be characterised by such an abundance of goods and services that it will be unnecessary to contemplate rationing according to the productivity of the labour required to produce those goods and services then the motivating factor of greater wealth for the entrepreneur is irrelevant. But then we have a problem with (2). Entrepreneurs under socialism cannot possibly be given the freedom to do their own thing since this would divert resources away from other more urgent uses and would disrupt whatever coordinating mechanism it is imagined that socialism operates with. In practice, bureaucratic “experts” would have to decide which people ought to be given the chance to operate new ventures and what quantity and quality of resources ought to be placed at their disposal. There is then the problem of when the planners should decide that a particular research project is too costly and should be terminated. How soon should it be expected to yield results?

But this is not the only problem. Suppose several different projects turn out to be feasible. Even the fact of their success may not be enough. For we could imagine some of these projects yielding consumer goods that only satisfy the needs or desires of a minority of the population which the majority would be inclined to reject. Those minority needs could be medical needs rather than mere “luxury” desires and yet democratic votes might decide that they are too costly in relation to the prospect of satisfying more urgent needs common to larger segments of the population. This would clearly be unsatisfactory for those suffering from rare diseases. There could also be plans which propose to satisfy the needs of large segments of the population but which use up too much of society’s resources in relation to the prospect of satisfying other needs. What all this amounts to is that “free access according to self-determined needs” can only possibly be free access to the array of goods which the planners regard as economical to produce and not free access to everything that people might want or even need (e.g., medically). This clearly represents a failure for a socialist community with its stated premise of being able to address everyone’s needs. But it is no surprise that we should expect the socialist community to fail in this objective. For the facts of economics establish quite clearly that we cannot all have everything we want.

This seems to be unwittingly acknowledged by advocates of stock control. For stock control is considered to be a means whereby relative scarcities of various goods are brought to the attention of producers and consumers and this is supposed to provide a sort of economic discipline. But then how can this be compatible with free access? If relative scarcities are to be brought to the attention of producers and consumers this means that they must be expected to restrict their consumption of the more scarce goods in favour of the less scarce goods. But this means that they would no longer have free access. So in order to try to avoid inequity in what people get this means that some principle of distribution would have to be decided upon.

The problem of what new production processes and consumer goods to create is handled quite adequately in the free market. Anyone can bid for means of production to try out his proposals. And he does not need the support of the majority of society in order to do this. If necessary he need only convince one other person to back his venture. Each person bears his own risks voluntarily and is not forced by democratic vote into bearing the risks of others. It is losses that weed out unsatisfactory proposals and profits which entrust means of production to those better able to satisfy the most urgent wants of the consumers as expressed in market demand. Of course, this is a system of rationing and it remains true that not all needs can be addressed due to the inequality in purchasing power. But the point is that the socialist community claims to be able to address all needs, yet clearly would not be able to.

Because, under socialism, nobody is allowed to merely appropriate means of production they have to be dished out to various groups of workers on the basis of decisions made by a central committee. It has to be a central committee because the socialist society is

obliged to *try* to coordinate different centres of production, otherwise it will return to the dreaded anarchy of production. Self-regulating stock control appears to avoid the need for central planning only because the problem of *what* consumer goods to produce and how to produce them in the first place is not addressed. Socialists think that production is merely a matter of seizing the goods. What could be more simple?

Why Socialism Must Aim at Central Planning But Why It Cannot Succeed

Whatever the feasibility of stock control in regard to the production of a predefined set of consumer goods it is difficult to see how it can apply to factors of production. How are the planners to know which combination of factors of production, applied to the production of a particular consumer good, maximises the resources left over for the production of other goods?

To make this problem less abstract consider the production of a basic item such as shoes.¹⁰ They can be produced in varying quantities, in various styles and by different methods. They can be produced by machine or hand or by different combinations of machine and hand. They can be produced by different materials, e.g., by leather or rubber, or by different combinations of materials. They can be produced in different locations. Under capitalism the methods, materials, styles, geographic locations are those which, ultimately, the consumers are willing to make profitable.

However, suppose, in a socialist community that the quantity, styles, methods, materials and combinations of machine and hand labour were decided upon for the production of shoes. The problem facing the planners would not end there. The planners are logically obliged to consider the effect of shoe production on the production of *all other items* produced in the community. For the factors of production tied up in making shoes are now unavailable for other purposes. Shoe production requires labour which could be employed elsewhere. It requires leather or other material or tools and machinery which could be employed elsewhere or which is produced by labour which could be employed elsewhere. Shoes produced in Newcastle leave less labour available for other purposes in Newcastle than if they are produced in London, say.

Thus, the planners are obliged to consider the effect of shoe production on production in *all* other industries which use *any* of the factors of production used in the shoe industry. They must consider what things depend on the output of those other industries and what alternative factors of production are available to those industries. They must then consider the industries which use those alternative factors of production, what things depend on the output of those industries and what alternative factors are available to them and so on. Then they must consider whether to expand the supply of particular factors of production. If so, by what means, where, and at the expense of what.

Consider one of the factors used in shoe production, say, leather. The planners would have to consider its uses for, say, upholstery and providing belting for machinery. They would have to consider the consequences of having more or less machinery versus more or less shoes. They would have to consider alternatives for leather in upholstering furniture, such as various fabrics or plastic, or in providing belting for machinery, such as steel. They would have to consider the alternative uses for the fabrics, plastic and steel and what output depended on those alternative uses, etc. Then this exercise would have to be repeated for *all* the other factors used in shoe production.

Moreover, *any* unanticipated event, whether calamitous or favourable, requires the replanning of the *entire economic system*. For example, suppose a train carrying an oil shipment is destroyed. How are the planners to know where to take out the loss? They would have to look at all the different uses for the oil and examine the consequences of oil being withdrawn from those uses. The same applies to, say, fewer train wrecks than anticipated. The

planners would have to decide on the right use for the extra supply of oil.

The market deals with these types of problem in the following manner. In the first case, the oil price rises and this prompts the consumers to economise in the use of oil. Each consumer (or producer), on the basis of his own knowledge and personal context, economises in the use of oil in its most marginal employments for him personally. (The rise in price also simultaneously encourages the expansion of its supply.) In the second case the oil price declines and each consumer uses the extra supply in its previously submarginal employments for him personally. The socialist community would have to try to discover, respectively, the marginal and submarginal uses for the oil for *every single person* in the world who makes use of oil either directly or indirectly.

A more serious problem for a socialist community to solve would be a poor harvest in France, say, and the need to ensure that adequate food was available in France by drawing in food supplies from elsewhere in the world in a way which causes the least harm to those who would normally consume those supplies. It would have to take into account *everybody's* different personal contexts in the same way the market does through the price system except that there would be no market prices to guide it. Then it would again be faced with the problem of extra means of production being tied up in uses for which they were not previously employed and having to trace the effects of this through the entire economic system.

So socialism, in order to replace the "anarchy of the market" by "conscious social control", *must* aim at a system of central planning. But the planning of the entire world economic system from a single decision centre surpasses the powers of the human intellect. No single person or committee is in a position to grasp the physical connections between all the various industries. No committee can trace the consequences of alterations in any one industry on all the others. A central committee would have to be able to:

hold in mind at one time a precise inventory of the quantities and qualities of all the different factors of production in the entire economic system, together with their exact geographical locations and a full knowledge of the various technological possibilities open to them ... it would have to be able to hold in mind at one time all of the millions of separate farms, factories, mines, warehouses, and so forth, down to the last repair shop, together with a knowledge of the quantity and quality of all the machines, tools, materials, and half-finished goods that they contained, and exactly what they were potentially capable of accomplishing and when.

It would then have to be able to project forward in time all of the different new combinations of factors of production that might be produced by the existing factors, together with where and precisely when they would come into existence and the technological possibilities that would then be open to them ...

And then, out of all the virtually infinite number of different possible permutations and combinations of what might be produced, it would have to pick one that on some undefined and undefinable basis it considered "best", and then order it to be undertaken. That would be its economic plan.¹¹

There are in fact two distinct problems here which, so far, might not be that manifest. (1) Ideally, in order to satisfy people's wants, socialist planners must try to formulate a plan which accords with the scale of values of *each* individual consumer. They will be unable to ascertain each person's scale of values since these are generally unknown to the individuals themselves and are in constant flux. They are revealed only in individual action. The market has access to them only by looking at what goods people are prepared to exchange. (2) Less ideally, the socialist planners can simply decide, perhaps through some sort of highly complicated democratic decision-making process, which wants should be satisfied and which not. In other words, an aggregate scale of

values will be created which will differ from the true aggregate scale of values of the consumers. For simplicity we can say that the planners would now be aiming to satisfy the scale of values of the planners themselves. For the logic of the situation is the same as that of a dictatorial central committee which draws up plans independently of wider consultation. But in both cases, the next stage, of coordinating factors of production to satisfy wants in accordance with the decided-upon scale of values, the planners will be unable to perform.

So socialist planners, both when they aim at satisfying each person's wants and when they aim at satisfying "democratically-decided" wants in the aggregate, face insuperable difficulties.

Since central planning is impossible, in practice, the socialist community must resort to decentralised planning where each enterprise just tries to produce as much as possible with whatever means of production accidentally happen to be available and where the actions of any one enterprise are necessarily not coordinated with those of the others. The result would be economic chaos and starvation.

Socialists may think it is extreme and unrealistic to assert that the inability of socialism to calculate economically must lead to starvation. It might be thought that, *at worst*, socialism will end up with food queues and a very low standard of living, such as in Eastern Europe, but not starvation as such.

Looking at capitalism in the West it does seem easy to ensure that, at least, there will be enough food to go around. Food seems to be quite easy to produce in abundance. Look at all those EC food mountains! Surely providing enough food would be quite a trivial matter for socialism, would it not? All it has to do is prioritise food production and curb the frivolous waste now generated by capitalism.

What this overlooks is that the abundance of food in the West depends on a more or less efficient distribution of factors of production and these must be coordinated through the price system. It would actually be quite easy to produce starvation if, overnight, the price system were abolished. We can get an idea of what would happen by looking at the effects of price controls. Price controls are a way of distorting or paralysing the functioning of the price system and of, therefore, distorting or paralysing economic calculation.

The supply of food to where it's needed requires, among other things, the existence of a transportation system. This in turn requires the availability of adequate energy. Today, oil is the primary source of the energy required for transportation. It also has a multiplicity of other uses. In a market free of price controls it is the case that the more important uses of a factor of production outbid, in the aggregate, the less important uses, as determined by the prices the consumers are willing to bid for its final products. For example, let us suppose that, at a certain price of oil, the products of oil are used by oilmen needing lubricants for their wells, by truckers delivering food supplies, by commuters travelling to work, by shoppers going on "window-shopping" excursions, by ordinary people going for Sunday afternoon drives and by rich people heating their garages and swimming pools.

Now suppose that, due to a war in the Gulf, or due to an effective OPEC oil embargo the price of oil doubles. Then the more important uses of oil will outbid the less important ones. This does not mean that the rich will outbid the poor for all uses of oil. To consider our example above, oilmen needing lubricants for their oil-wells, truckers delivering food supplies and commuters travelling to work will outbid shoppers going on window-shopping excursions, ordinary people going for Sunday afternoon drives and rich people using oil to heat their garages and swimming-pools. This is because the former group will be willing to pay more for relatively more essential uses of oil than the latter will be willing to pay for relatively less essential uses of oil. In short, if a factor of production is in reduced supply the reduction will be taken out in the least important of the uses which it had previously satisfied. Thus even a person of modest means, who needs petrol to get to

work will be able to outbid a rich person who uses oil to heat his swimming-pool.

Now suppose that, as a result of the oil shortage, price controls are imposed so that the price of oil is kept artificially low. This is what happened in the US after the OPEC oil embargo in the 1970s. Because of the artificially low price the more important uses of oil were prevented from outbidding the less important ones. This applied both geographically and for each type of oil consumer. So it was the case that colder parts of the country, such as the North-East US, could not outbid parts of the country needing less oil. Truckers were unwilling to deliver food supplies over long distances for fear of not being able to get enough gasoline for their return trips. Oilmen were unable to obtain lubricants for their wells. Thus, firstly, the people responsible for supplying oil supplied less oil because the price controls made it uneconomic to supply more. Then secondly, whatever reduced quantity of oil they decided was worthwhile to supply was itself hampered by the lack of lubricants, again because of the price controls!

The effect of price controls is to make the acquisition of oil dependent on a combination of luck and favouritism. Because the price controls simultaneously reduce supply and increase demand, thus creating excess demand, the information provided by the price system becomes useless. It becomes less important who the oil is supplied to because everywhere there will be excess customers for the oil or customers who need more oil. If oil is supplied to its less important uses rather than its more important uses this makes no difference to the supplier because the more important uses are unable to outbid the less important ones. If a trucker delivering food supplies is unable to outbid someone wanting to go for a Sunday afternoon drive as the result of price controls applied to a single factor of production - oil - then this makes the supply of food somewhat precarious. If price controls are applied more generally to other factors of production this takes us closer to the situation under socialism where there are no prices at all. Then each person's "self-determined needs" will imply that no person can outbid any other. The general consequence of this must not just be precarious food supplies but starvation.

Incidentally, if some apparently essential consumer good or factor of production is in reduced supply then the usual solution by governments is to impose rationing. (Price controls have the unintended effect of rationing because they reduce supply.) Superficially rationing seems fair because it appears to prevent the wealthy from buying up all of the scarce supply. But firstly, this overlooks the corruption and backhand deals which rationing usually tends to spawn and which favour the rich over the poor. Secondly, rationing is crude and ignores everyone's different personal contexts. If petrol were in short supply the government could impose a ration of, say, five gallons of petrol per family per week. Clearly, this would not take into account how many members of the family were car-owners, what cars and what rates of petrol consumption they possessed, what functions the cars were used for, how important these functions were to the persons concerned, etc. The government could try to address such problems by gradually making the rationing system more sophisticated so that, for example, it could take into account the number of cars per household, the distance travelled to work by each person in the family who used their car for work, and what quality of public transport was available in each instance. This would still fall far short of capturing each person's personal context. There is also the question of ensuring that people provide the government with accurate information in the first place. It is easy to see how government rationing systems can quickly become enormously complex and bureaucratic. The implementation of price controls on oil in the US in the Seventies is a case in point.

If a commodity like oil is vastly reduced in supply due to an effective OPEC oil embargo or due to some natural disaster the solution is not to impose price controls nor to impose rationing. The solution is to let the market sort it out and for governments to do nothing. All they can do is make things worse.

V THE MORALITY OF THE MARKET

Exploitation in the Free Market is a Myth: The Moral Rightness of Profit

Having disposed of socialism as a workable system of production under the division of labour we can now examine some moral issues. In order for Marxists to hold that workers are exploited then, to be consistent, they *must* also hold that profit *per se* is morally legitimate but that the only thing wrong with it is that it goes to the wrong people, the capitalists rather than the workers. If all firms are transferred from ownership and management by capitalists into ownership and management by workers profits should be legitimate. Nevertheless, suppose the Marxists are consistent in morally condemning profit, as such, whether for workers or for capitalists. Are they right?

In the analysis of capitalism which follows I assume that only nonfraudulent exchanges take place. Of course, many of the objections which socialists have against capitalism are to do with its propensity to produce fraud and malpractice. But free marketeers agree that there should be laws against such things and appropriate penalties. Though free marketeers and interventionists may differ on how these laws should be defined and enforced. However, socialists object to capitalism even where fraud and malpractice are absent so we need only consider the ideal case.

The first thing to notice about profit is that anyone who engages in voluntary transactions is a profit-seeker. Marx's claim above that in commodity exchange equal values are traded is mistaken. If I exchange 20p for a bar of chocolate I do so because the bar of chocolate is worth more to me than the 20p and the 20p is worth more to the seller than the bar of chocolate. Both sides expect to gain and usually do so. They do not always do so because either side may regret their decision some time later. But it is the prospect of gain which makes the transaction possible.

Thus, in trade, we have a divergence of values between the traders. We do not have the exchange of equal values. The monetary nature of the transaction makes it appear that only the seller profits because it ordinarily costs him monetarily less to produce the chocolate than to sell it. However, it is quite clear that in purchasing the chocolate I too profit because my money only stands for the satisfactions it can yield me. And I conclude that the use to which I put that money at the moment of the transaction provides me with more satisfaction than any other use to which I could put it. I also profit because the seller has provided me with a value which I either could not have created myself, or which would have been too costly, in the form of foregone alternative satisfactions, for me to have created it myself. This also provides the clue to why the seller is morally entitled to a monetary profit.

For simplicity let us suppose that the chocolate producer is a one-man business. This avoids the complication of him exploiting his workers (this will be analysed shortly). He purchases the materials and the machinery and calculates that it costs him a total of 17p to produce one bar of chocolate. He then sells a bar to me for 20p. His profit is morally justified because he has provided me with a service which I either cannot or will not provide for myself. The 3p profit is my payment to him for services rendered.

Since a sole labourer is morally entitled to make a profit then, by extension, a group of workers in a cooperative are morally entitled to make a profit.

But now suppose that the chocolate manufacturer, instead of making the chocolate himself, merely purchases means of production and hires workers to make the chocolate. Then he is still entitled to the profits on its sale. Clearly he is entitled to a reward for his entrepreneurial foresight, for the fact that he has had to expend resources to set up in business and for providing the workers with employment which they either could not or would not provide for themselves. The workers are remunerated in advance of the sale of their product and are therefore spared the risk, for the duration of the production process, that the product might not sell or might not sell in sufficient quantities to cover costs of production. The

workers may insist that it is they who have laboured to create the product. But firstly, part of their productivity is due to the efficacy of the means of production which they did not create. (If it is claimed that these means of production were created by past labour it is still the case that they were not created by the present group of workers. So if the entrepreneur is not entitled to the profits then nor are his workers.) Secondly, were it not for the entrepreneur the workers could not have had these particular jobs.

It should be emphasised that the wage contract is a mutually profitable arrangement to the extent that the worker is, for example, able to procure more consumption goods by working than by not working. (For the purpose of this illustration I here assume that more consumption goods is a better outcome than less consumption goods.)

Suppose I start from a position of zero income but already possess a stock of consumer goods, x . Then if I get a job, thus acquiring an income, and am able to acquire a further stock of consumer goods, y , then I profit from the wage contract provided that $(x + y)$ is greater than $(x + \text{the psychic cost of my labour})$. Suppose I perform this computation every month that I am employed in order to decide whether I should carry on working. If I still continue to work in, say, month 3 then it must have been the case that month 2 was profitable. It does not follow from any of this that I enjoy working or that I do not think that I should be paid more or that I do not think that my boss is an arsehole. But it does follow that I am better off working than not working and therefore that working is profitable.

My employer profits in the same sense as I do. He exchanges fewer and/or inferior goods for more and/or superior goods. But for him "goods" in general include "higher order" capital goods as well as "lower order" consumption goods.

Marxists, in holding that capitalists and entrepreneurs are parasites, assume that jobs and means of production are just "there", like apples on a tree, already assembled and organised for a purpose. Viewed like this, it does seem as though capitalists and entrepreneurs profit from doing no work. But Marxists overlook the fact that jobs are created by entrepreneurs spotting gaps in the market which they judge they can fill or guessing that the consumers will respond to entirely new types of product. The entrepreneurs then assemble and organise workers for the specific production tasks. Marxists claim that the workers are quite capable of doing all this themselves and do not need "useless" bosses. But if so why did they not create the jobs they are working at which were created by some entrepreneur(s)? If it is so easy to do this then (1) everybody would set up as an entrepreneur and (2) banks would dish out business loans left, right and centre. That we can expect most new products to fail just shows how difficult it all is. Even the most successful companies occasionally get it wrong and have to write off millions or even billions.

One of the standard Marxist indictments of capitalism is that the workers are forced to sell their labour power through their not having ownership of means of production. But today they have substantial funds in trade unions and could easily club together, purchase means of production and start their own businesses. Even without unions they can club together and start businesses with their personal savings. Why do they largely not do this? The answer is that it is risky and difficult and the workers prefer the relative security of wage labour. They may not like work (most people don't) but they like the consumer goods which work buys and they would rather have those goods sooner than later. If they became entrepreneurs then they would at best have those goods later (the goods which the fraction of wages tied up as means of production can buy) or at worst not have them at all were their business ventures to fail.

Perhaps Marxists think that workers should not have to expend any effort or take any risks in order to assume control of means of production. Suppose I, as a wage labourer, stop working and use some of my savings to purchase means of production and hire workers. Then, according to Marxism, as soon as my business

venture goes into profit and I decide I am not going to pay it all to the workers I am exploiting them. Moreover, ideally, they and everyone else in society should be entitled to ownership of the means of production in my business. But who took the risks? Who provided the workers with jobs? Who purchased the means of production? Who had to forego consumption? Even if we admit that the means of production I purchased were created by past labour, I did in fact purchase them. So the debt is settled.

If the workers were to receive the entire sum of profits then part of their income would be due to their using means of production which they themselves did not create (for they were created by past labour). This would mean that they were obtaining unearned benefits from the labour of others. They would also be obtaining unearned benefits from me because I had to bear the risks and forego consumption. Remember, I have to pay them at least subsistence wages prior to the sale of the products. Thus, were the workers to receive all the profits then far from my exploiting them it would actually be they who would be exploiting me.

Let's return to the chocolate manufacturer. If the management of the chocolate manufacturing company is successively transferred to other managers, in a series of voluntary transactions by the founder owner-manager(s), the subsequent managers are still entitled to their wage-income and bonuses. Management is clearly a productive activity since all production needs to be organised in some manner and, as we have seen, this would be so under socialism too (though the production priorities might be different). How a company is managed makes a difference to its performance. Not everybody makes an equally good manager. We see differences in managerial skill manifested all the time under capitalism. Companies which perform poorly under one management team flourish under different management teams. Often even a single individual can have a significant impact on the success of a company.

Marxists may object that the good managers are merely those who can make bigger profits than their competitors and that anyone can come along and screw wages down to subsistence, shut factories, etc. However, (1) if all management is geared towards maximising profits then, with respect to this objective, we can still say that management is a skill which varies from individual to individual. (2) If, under socialism, management is geared towards other objectives, such as organising production to satisfy, efficiently, people's needs, it would still remain true that some individuals were more able at organising production according to these criteria than others.

What about the profit which accrues to the capitalist? This is also morally justified. Suppose I lend you a sum of money which you use to purchase means of production. In the first instance it is legitimate for me to charge interest on the loan and this interest is a measure of my time-preference. The money I lend you represents wealth which I cannot now consume. But since, other things being equal, a satisfaction in the present is worth more than a satisfaction in the future the interest I charge is my payment for tying up wealth in means of production, which I could otherwise have consumed (the wealth, that is). The level of interest which I charge corresponds to the level of my time-preference. The more I value present goods to future goods the greater the interest I will charge on the loan of my money. In addition to this basic interest I will add a component to cover the risk involved in lending my money to you. For you may not be able to repay all, or part, of the loan due to your failing to correctly anticipate the wants of the consumers. Also, I am entitled to charge an entrepreneurial component for, in loaning you the money, which is equivalent to furnishing you with means of production, I render you a service which you either cannot or will not perform yourself. Thus providing loans can be seen as a genuine contribution to production which deserves a reward. Hence, banking and related activities are genuine services and are not merely exploitative and superfluous.

Inequality

Socialists of all descriptions, not just Marxists, are always whingeing on about how, in all countries, a tiny percentage of the population own a disproportionately large fraction of the personal wealth. It is implicitly assumed that there is something wrong with this. The premise behind this complaint is that wealth is an anonymous social product which we are somehow all equally responsible for. Therefore it is assumed that anyone who is rich must have taken his wealth unjustly from someone else. This means that both the criminal, who obtains wealth through force or fraud, and the honest businessman, who obtains wealth through voluntary exchanges are equally blameworthy. Admittedly, in capitalism as it currently exists, the process of wealth acquisition is rather complex due to the fact that we have interventionist capitalism. So we often have wealth obtained through a mixture of force, either legal or illegal, fraud and voluntary exchange. It can be quite difficult to disentangle all this. So sometimes certain outcomes are blamed on the free market when in fact this is not the case. Nevertheless, conceptually, we can still distinguish between these various ways of obtaining wealth. Since any series of voluntary exchanges will inevitably result in inequality of wealth, the only way of combating this is to forbid voluntary exchanges. And this is, of course, what the Marxists propose to do.

Marxists, being inverted snobs, romanticise physical labour. When they assert that the workers create all the wealth they have in mind blue-collar manual workers rather than doctors and accountants. Though, on closer inspection, when they are being less polemical, Marxists include all those who earn wages provided they are sufficiently removed from high-level managerial decision-making.

But the primary source of wealth is not physical labour but mental labour. Physical labour as such extends no further than the range of the moment. It is mental activity which makes it productive, either the mental activity of the individual worker or the mental activity behind the production tools he uses or both. Labour is made productive by the science, technology and organisational ability which goes into the goods produced by individual workers. Most of that science, technology, and organisation derives from a source other than the worker himself. Yet the worker's wages reflect the combination of all of these external inputs.

Socialists and other collectivists may object that since everyone benefits from the general availability of scientific and technological knowledge, both the average person and the exceptional person, there is no justification for the exceptional rewards which the exceptional people may often receive. They may also object that the exceptional person is exceptional primarily as a matter of luck, of his having wealthy parents or parents who can afford to provide him with a good education.

This collectivist argument is flawed. At the beginning of the century there were plenty of physicists around who all had access to the same past store of knowledge that Albert Einstein had access to but Einstein created the theory of relativity and they didn't. Why? New ideas are not created merely by having access to a reservoir of past knowledge but by making use of that knowledge to fashion new knowledge. This cannot be done by automatons. It clearly requires individual mental effort. Even when new ideas, in any field of endeavour, are created cooperatively they still require the individual mental effort of each co-creator.

Even if we admit that there are inequalities in people's life-chances so that, say, only 15% of the population can get to university the collectivist argument still cuts no ice. For we can say that maths undergraduates in a particular university class are all equally well taught and have equal access to the maths literature but one may turn out to be a Gauss or a Laplace while the others achieve nothing of consequence. And this may hold even if they all end up with first class honours. (In fact they might stand more chance of being a Gauss if they don't get first class honours.)

The work of the labourer is not made more productive solely by the application of scientific and technological knowledge but by

the fact that it is directed to producing goods of a definite quality, where, were the labour undirected, it might produce little of value. Here we need to remember that "quality" and "value" are concepts inhering in the minds of the consumers.

For example, compare the value of the work which has gone into producing copies of Marx's *Capital* in the past forty years with the value of the work which has gone into producing copies of Ludwig von Mises's *Human Action*. The worldwide sales of the former vastly exceed those of the latter and, no doubt, were Marx alive today he would be a millionaire. From the point of view of the consumers of these two books, largely university-educated intellectuals, Marx's *Capital* is vastly superior to Mises's *Human Action*. (Most of them probably haven't heard of *Human Action*.) Capitalism rewards the former well and the latter comparatively poorly. It is ironic that capitalism would make its most famous enemy a millionaire, while it would (and did) reward one of capitalism's most vociferous advocates hardly at all.

Now consider an example from industry. A computer software company produces a new program which within a few months becomes the biggest-selling piece of software in computer history. This is what is supposed to have happened recently with the personal computer program, Windows 3, produced by the Microsoft Corporation. Having purchased Windows 3, companies and individuals are able to do things which previously they were unable to do. Other software companies have in turn produced programs to run in the Windows environment which previously they were unable to do. These programs have further enhanced the productivity of the companies who have purchased Windows 3. Windows 3 has created a demand for computer programmers who are able to make use of this environment. These programmers might have higher-paying jobs than they did before as a consequence of this. All this is an example of the chain effect of new ideas and products whereby in a voluntary market both producer and an indefinitely large number of consumers benefit at no one's sacrifice or loss. Windows 3 has no doubt considerably added to the profits of the Microsoft Corporation, making the boss, Bill Gates, much richer. (He is, in fact, one of the richest men in the world.)

The question is: does he deserve this? Well, Bill Gates, by all accounts, is a very clever fellow. He won't necessarily have developed all the thinking for Windows 3 by himself but he will at least have had a considerable input to the concept of it. He will have guided the labour of his employees so that they worked on the development of *this* type of software rather than on some other type of software. That is his entrepreneurial function. The result is that Windows turns out to be highly valued by the consumers and Bill Gates is handsomely rewarded for his foresight. What about the people, outside of Microsoft, who labour in the factories which make the disks on which the Windows software resides or who provide the raw materials for the disks? Should they be the sole beneficiaries of the success of Windows? Clearly not. All they have contributed *vis-à-vis* Windows is mere physical labour as such. Of course, they do derive some benefit from the success of Windows since Windows increases the workload of the factories making the disks and this is to the interest of the workers. But the primary input is from Microsoft. Were it not for Microsoft the factory workers would not have had this particular benefit and may not even have had jobs making computer disks. The factories may have had insufficient work to hire them. Also the fact that these particular disks are able to sell at the price they do is due primarily to Microsoft and its intellectual labour input, both technical and managerial, of Microsoft. The workers making the disks in the factory or the workers in society as a whole have no right to expropriate and redistribute the profits and the products of the Microsoft Corporation. Were it not for the Microsoft Corporation "society" could not have had this particular benefit.

When goods and services are exchanged under capitalism inequality of wealth is certainly a major consequence. This inequality is the result of varying combinations of luck and ability in every individual who takes part in this system of social cooperation. Included as "luck" is one's social background or "life

chances". Even many of those who accept the market believe that it needs to incorporate an element of "social justice" in order to give the disadvantaged a fair start. They feel that though we should not aim at equality we should aim at equality of opportunity. This is an argument I used to hold many years ago when, unfortunately, I was sympathetic to socialism. The problem is that it is not possible to aim at equality of opportunity without also aiming at equality and thus hampering the operation of the market. By its nature the market inevitably generates unequal wealth and therefore will upset attempts at equalising opportunities. The logical stopping-point for trying to achieve equality of opportunity is to abolish the market, although it still won't be possible to achieve equality of opportunity by doing this.

However, in a properly functioning market the greater wealth of some is not caused by the greater poverty of others. It is usually the case that the wealthy are wealthy as the result of providing services to the less wealthy (that is, through trade). Though many of the wealthy will be wealthy by inheritance or bequest. But then it will still not be the case that they have taken it from the less wealthy. People may object to undeserving heirs but this is the price one has to pay for having a free society. If people are to be free to dispose of their own wealth then this must allow for the possibility that their heirs will not deserve their inheritances.

In the market economy the more able can become better-off by providing services to the less able which the less able either cannot or will not provide themselves. I use "able" in a broad sense to mean the ability to produce something which is valued by others. This can be mere physical beauty such as that possessed by a photographic model. It need not be produced by labour as such. The photographic model does have to perform some labour, for example, in preparing for his/her poses. But the main source of his/her wage is his/her physical beauty. Thus the more able produce things which are more highly valued in the aggregate than the less able and receive greater remuneration as a result. Where all actions are voluntary this takes place automatically since the consumers indirectly channel their purchases to those factors of production which result in the best goods as evaluated by them.

In the capitalist system some individuals are able to earn an income substantially higher than the average. It often seems, especially with company chairmen and the like, that they do not deserve this. Intuitively we feel that pop stars and film stars are more deserving of their wealth than managing directors. Yet many celebrities earn much more than the majority of people who run industry. Why is this? Kylie Minogue's income from record sales is undoubtedly vast. The reason for Kylie Minogue's high income is the rareness of her particular abilities in relation to the demand for her product compared to the abilities of the average worker in relation to the demand for his product. Moreover, Kylie Minogue's income is arrived at by voluntary transactions in the market and so is morally just. The people who buy Kylie Minogue's songs cannot produce them themselves since her talents are highly specific. We can produce thousands of secretaries who are valued more-or-less in the same way as far as the consumers are concerned. So their bosses do not need to pay them wages as high as Kylie Minogue's. But we cannot produce multiple versions of Kylie Minogue, each delivering a product which is valued more-or-less in the same way. If it were not for Kylie Minogue her fans would be unable to obtain the same benefit that she provides them with. Therefore, Kylie Minogue confers an incomparable boon on her fans and her income is a reward for the pleasure she provides. But her wealth is not taken from those who do not like her music.

Note that, according to Marxism, Kylie Minogue is exploited because she does not receive the full income from her record sales. She may receive something like 15% of the retail price. The profit is collected by her record company bosses who probably, individually earn substantially less than she does. This is an extreme example but it just shows how stupid the Marxian theory of exploitation really is.

The foregoing shows that value is subjective and that the value of a commodity is what the individual consumer believes to be its

value. It is the diverse subjective valuations of the consumers as expressed in the market which finally determine prices. The labour theory of value has it the wrong way round. It is not labour that determines value. It is the values of commodities which determine the value of labour and other resource inputs.

The principle which applies to Kylie Minogue applies to all other wage rates in the market but the relationships are more indirect. And the wages paid to employees are discovered by trial and error in the competitive biddings of employers and employees. (Note that I am discussing ideal free market conditions. In reality what we have around the world are variously regulated market economies, so these relationships tend to be more or less obscured. In other words, subsidies, price controls, taxation and protectionism all distort the picture.)

What each individual receives in wages, profits, dividends and interest is determined by people's voluntary choices in the market. Ultimately the structure of profits is determined by the value judgements of the consumers as expressed in what they are able and willing to purchase.

Thus there is no exploitation in the free market. The so-called surplus value belongs with full right to the capitalist. And the higher wages of the more-skilled workers compared to the less-skilled are morally justified. Far from the average worker getting less than his worth under capitalism he actually gets a lot more than his worth. If "worth" is defined in terms of how hard he has to labour to achieve his current standard of living and if one compares this to his situation 50 years ago.

The socialist demand for the collective ownership of the means of production and for distribution according to need is nothing less than the demand to sacrifice the able, the willing and the competent to the unable, the unwilling and the incompetent. Socialism is a creed for primitive savages and kindergarten intellectuals.

VI CONCLUSION

We have seen that the Marxian vision of socialism fails not only on its own terms but on practical and moral grounds too. Marxism's essential moral critique of capitalism rests on the assertion that capitalism exploits the workers. But the advocacy of socialism must involve similar exploitation, which therefore undermines Marxism's original moral position. If socialism is nevertheless continued to be advocated then we have seen that its wish for participatory democracy and empowerment of the workers is woefully muddled and quite unrealisable. We have seen also that socialism cannot escape economic chaos as the result of its being unable to perform economic calculation. Finally, we have seen that capitalism involves no exploitation and is morally just. Whether it ought to be regarded as such depends on people's moral sentiments. But on the assumption that most people accept a personal morality something like that of each individual being the rightful beneficiary of his labour (in the broadest sense), the free market accords with this morality. If, in the end, these sentiments are rejected then socialists must try to convince people that they can have greater freedom and prosperity under socialism. This essay has shown that they cannot. The unrealisability of socialism implies that all steps taken towards its goals must be irrational. Groups like the SWP who try to sell copies of *Socialist Worker* on street corners and on picket lines are wasting their time. Socialists can rant and rail all they like. But they cannot change the nature of reality. The attempt to establish socialism can result only in widespread destruction and misery.

NOTES

1. *Socialist Worker Review*, PO Box 82, London E3 3LH, p. 10.
2. This fundamental inconsistency of Marxist polemics is alluded to by Chris R. Tame in his essay "The Moral Case For Private Enterprise" in *The Case For Private Enterprise*, Cecil Turner (ed.), Bachman and Turner, London, 1979, reprinted as Philosophical Notes No. 1, by the Libertarian Alliance, London, 1985.
3. The opening paragraphs of this section have been illuminated by Part 4, Chapter 3 of David Conway's brilliant and devastating *A Farewell to Marx*, Penguin, Harmondsworth, Middlesex, 1987. This book is the best brief, yet detailed and clear critique of Marxism I have come across.
4. Karl Marx, *Critique of the Gotha Programme*, 1875, p. 344, in Karl Marx, *The First International and After*, Penguin, Harmondsworth, Middlesex, 1974.
5. Karl Marx, "Critical Notes to Adolph Wagner's Textbook", quoted in A. Wood, "Marx on Right and Justice: A Reply to Husami", in M. Cohen, T. Nagel and T. Scanlon (eds), *Marx, Justice and History*, Princeton, NJ, 1980.
6. Karl Marx, *Grundrisse*, 1857-8, Penguin, Harmondsworth, Middlesex, 1973, p. 705.
7. Karl Marx, *Capital*, Volume 1, (1867), Penguin, Harmondsworth, Middlesex, 1976, p. 743.
8. For the remainder of this section I am indebted to the analysis given in Chapter 2 of Hans-Hermann Hoppe's intriguing *A Theory of Socialism and Capitalism*, Kluwer Academic Publishers, Norwell, Massachusetts, 1989.
9. Leon Trotsky, *Soviet Economy in Danger*, New York, 1933. Quoted in Trygve J. B. Hoff, *Economic Calculation in the Socialist Society*, 1949, Liberty Press, Indianapolis, 1981, pp. 263-264.
10. I am indebted to Chapter 6 of George Reisman's brilliant *The Government Against the Economy*, Jameson Books, Ottawa, Illinois, 1979, for the following example.
11. George Reisman, *The Government Against the Economy*, op. cit., Chapter 6, p. 156.

RECOMMENDED READING

Boettke, Peter J., *The Political Economy of Soviet Socialism*, Kluwer Academic Publishers, Norwell, Massachusetts, 1990.

Conway, David, *A Farewell To Marx*, Penguin, Harmondsworth, Middlesex, 1987.

Hoff, Trygve J. B., *Economic Calculation in the Socialist Society* (1949), Liberty Press, Indianapolis, Indiana, 1981.

Hoppe, Hans-Hermann, *A Theory of Socialism and Capitalism*, Kluwer Academic Publishers, Norwell, Massachusetts, 1989.

Machan, Tibor R., *Marxism: A Bourgeois Critique*, MCB University Press, Bradford, 1988.

Mallock, William Hurrell, *A Critical Examination of Socialism* (1908), Transaction Publishers, New Brunswick, New Jersey, 1990.

Powerful early critique of the Marxian socialist vision, based on his American lecture tour of 1907.

Mises, Ludwig von, *Socialism* (1922), Liberty Press, Indianapolis, Indiana, 1981.

This book, by one of this century's greatest thinkers, contains what is generally considered to be the definitive formulation of the economic calculation argument even though the argument was recognised as far back as 1832 (Charles Babbage) and 1854 (H. H. Gossen). Even Engels was aware of the need for economic calculation but seemed to think that it was of relevance only to a capitalist economy.

Nozick, Robert, *Anarchy, State and Utopia*, Basil Blackwell, New York, 1974.

This book is very overrated in my opinion and very badly written. But Chapter 8 on "Equality, Envy and Exploitation, Etc." is good.

Reisman, George, *The Government Against the Economy*, Jameson Books, Ottawa, Illinois, 1979.

This is about the best introduction to free market economics that I know of, by a student of Ludwig von Mises, and superbly written. It's a pity that it's not more widely known.

Roberts, Paul Craig, *Alienation and the Soviet Economy* (1971), The Independent Institute, Oakland, California, 1990.

Sowell, Thomas, *Marxism: Philosophy and Economics*, Counterpoint, London, 1986.